

# **Yancoal Australia Ltd**

ABN 82 111 859 119

## **Annual Financial Report for the year ended 31 December 2019**

### 1. Results for Announcement to the Market

	<b>31 December 2019</b> \$M	31 December 2018 \$M	% Change
Revenue from ordinary activities	<b>4,460</b>	4,850	(8)
Profit before income tax (before non-recurring items)	<b>711</b>	1,198	(41)
Profit before income tax (after non-recurring items)	<b>767</b>	1,172	(35)
Net profit after income tax attributable to members (before non-recurring items)	<b>680</b>	868	(22)
Net profit after income tax attributable to members (after non-recurring items)	<b>719</b>	852	(16)

### 2. Earnings per share

	<b>31 December 2019</b> cents	31 December 2018 cents	% Change
Profit per share (before non-recurring items)			
- Basic	<b>51.5</b>	68.9	(25)
- Diluted	<b>51.4</b>	68.8	(25)
Profit per share (after non-recurring items)			
- Basic	<b>54.5</b>	67.6	(19)
- Diluted	<b>54.4</b>	67.6	(20)

### 3. Net tangible assets per security

	<b>31 December 2019</b> \$	31 December 2018 \$	% Change
Net tangible assets per share	<b>4.59</b>	4.35	6

### 4. Distributions

#### Ordinary share distributions

	<b>2019</b>		<b>2018</b>	
	Cents per share	Total AU\$'M	Cents per share	Total AU\$'M
Final dividend for 2018 paid on 30 April 2019	28.55	377	-	-
Interim dividend for 2019 paid on 20 September 2019 (2018 interim paid on 21 September 2018)	10.35	137	10.35	130
		514		130

On 28 February 2020, the Directors declared a final unfranked dividend totaling \$280 million (21.2 cents per share), with a record date of 16 March 2020 and payment date of 29 April 2020.

**5. Entities over which control has been gained or lost during the period**

**a. Acquisitions**

No entities were incorporated or acquired during the year.

**b. Disposals**

No entities were disposed of or deregistered during the year.

**6. Details of associates and joint venture entities**

	31 December 2019		31 December 2018	
	Holdings %	Profit after income tax contribution \$M	Holdings %	Profit after income tax contribution \$M
<i>Joint venture entities</i>				
Moolarben Joint Venture (unincorporated)	85	281	85	511
Boonal Joint Venture (unincorporated)	50	Immaterial	50	Immaterial
Middlemount Joint Venture	49.9997	(29)	49.9997	46
Warkworth Joint Venture (unincorporated)	84.472	233	84.472	369
Mount Thorley Joint Venture (unincorporated)	80	53	80	105
Hunter Valley Operations Joint Venture (unincorporated)	51	341	51	337
HVO Entities <sup>(a)</sup>	51	1	51	1
<i>Associate entities</i>				
Newcastle Coal Infrastructure Group Pty Ltd	27	Nil	27	Nil
Watagan Coal Mining Company Pty Ltd	100	Nil	100	Nil
Port Waratah Coal Services Pty Ltd	30	4	30	9

<sup>(a)</sup> HVO Entities consists of the following entities:

- HV Operations Pty Ltd
- HVO Coal Sales Pty Ltd
- HVO Services Pty Ltd

All financial numbers included in this report are stated in Australian dollars unless otherwise stated.

All other information can be obtained from the attached financial statements, accompanying notes and Directors' report.

## Directors' report

The Directors present their report on the consolidated entity ("Yancoal" or "the Group") consisting of Yancoal Australia Ltd ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2019.

### Directors

The following persons were Directors of Yancoal Australia Ltd during the financial year and until the date of this report. Directors were in office for this entire period unless otherwise stated.

Baocai Zhang  
Fucun Wang  
Cunliang Lai  
Xiangqian Wu  
Fuqi Wang  
Qingchun Zhao  
Xing Feng  
Gregory James Fletcher  
Geoffrey William Raby  
David James Moulton  
Helen Jane Gillies

### Company Secretary

The name of the Company Secretary in office during the whole of the financial year and up to the date of this report is as follows: Laura Ling Zhang

### Review of operations

#### Safety

Yancoal employs approximately 2,900 people in addition to the contractors and service providers who support the Group's operations.

Yancoal's Total Recordable Injury Frequency Rate ("TRIFR") for the reporting period was 7.27, an improvement on 7.40 in the previous year.

On 27 June 2019 there was a fatality at the Middlemount Joint Venture; Yancoal is a part owner, but not the operator.

Yancoal continues to operate its mines to legislative and safety standards. Under the direction of the Board and the Health, Safety, Environment and Community Committee, Yancoal remains committed to operating safely and transparently to achieve its objective of zero harm.

Yancoal continues to implement its Core Hazard and Critical Controls across all operations, identifying key hazards within the workplace and instituting effective controls. These continue to be managed and verified to check that they are operating as intended for the safety of our people.

#### Financial performance

Revenue from continuing operations for 2019 was \$4,460 million, down \$390 million from \$4,850 million in 2018.

Total Operating EBITDA (earnings before interest, tax, depreciation and amortisation) was \$1,635 million, down \$545 million from \$2,180 million in 2018. The Operating EBITDA Margin for the period was 36%.

Total Operating EBIT (earnings before interest and tax) was \$1,028 million before tax, down \$629 million from \$1,657 million in 2018.

Yancoal's profit after income tax was \$719 million, down \$133 million from \$852 million in 2018.

Yancoal's financial performance was strongly influenced by the deterioration in international coal price indices during 2019. The production and operating costs, which met the 2019 targets, improved on the prior year. In weaker coal market conditions the sustained high production rates at its low-cost tier-one assets preserves Yancoal's strong competitive position within the industry.

Yancoal continues to implement productivity and cost efficiency initiatives throughout 2019, maximising blended products across the New South Wales operations (both managed and operated) in order to meet the aim of maintaining stable unit cost of production despite cost pressures across the broader coal mining industry.

### Cash flow

The full year's net operating cash inflow of \$1,548 million was down from \$1,747 million in the prior year. The assets in production during the period were the same as the previous year, save for minor adjustments in ownership. The Moolarben, Mount Thorley Warkworth ("MTW") and Hunter Valley Operations ("HVO") mines, which provide the bulk of the Company's saleable coal product, each had outputs equivalent or better than 2018. Lower coal price was the main driver of reduced cashflow in 2019.

Net cash outflows from investing activities was \$392 million, with payment for property plant and equipment and exploration the primary expenditure, \$285 million. The balance of repayments of borrowing from associates, \$227 million, and advance of borrowing to associates, \$293 million, resulted in a net outflow of \$66 million. The final payment of the 4% stake in Moolarben of \$42 million was also an outflow.

Cash flows from financing activities included the net repayment of \$698 million in interest-bearing liabilities and \$514 million in dividend payments. The total net cash outflow from financing activities was \$1,209 million.

### Corporate activities

During the year ended 31 December 2019, neither Yancoal nor any of its subsidiaries purchased, sold or redeemed any of Yancoal's listed securities.

Yancoal completed a voluntary US\$500 million debt repayment on 26 February 2019. The Company continues to look for opportunities to reduce its debt profile through early repayments.

Yancoal paid a 2018 unfranked final dividend of \$211 million and a special dividend of \$166 million in April 2019.

The 2019 unfranked interim dividend of \$137 million was paid in September 2019. The 2019 interim dividend was equivalent to the 2018 interim dividend on a per share basis after adjusting for the share consolidation in 2018.

Yancoal's board of directors ("Board") was unchanged during 2019.

### Mining operations (all asset figures reported on a 100% basis)

ROM COAL PRODUCTION	Ownership	2019	2018	Change
Moolarben <sup>1</sup>	85%	20.5	18.6	10%
MTW <sup>2</sup>	82.9%	17.6	17.6	-%
HVO	51%	19.2	19.0	1%
Yarrabee	100%	3.4	3.5	(3%)
Stratford Duralie	100%	1.2	0.7	71%
Middlemount	~50%	3.4	4.8	(29%)
Watagan	100%	3.7	2.4	54%
<b>Total - 100% Basis</b>		<b>69.0</b>	<b>66.6</b>	<b>4%</b>
Total - Attributable <sup>3</sup>		46.5	42.9	8%

<sup>1</sup> 2018 attributable figures include 81% attributable production for Moolarben up to and including 30 November 2018, and 85% thereafter.

<sup>2</sup> 2018 attributable figures include 64.1% attributable production for Mount Thorley Warkworth up to and including 28 February 2018, and 82.9% thereafter.

<sup>3</sup> Attributable share is the attributable production as it relates to Yancoal's financial statements and does not include production from Middlemount (incorporated joint venture and accounted for as an equity-accounted investment) and Watagan (equity-accounted investment and deconsolidated from Yancoal in March 2016). Attributable share includes: Moolarben (85%); Mt Thorley Warkworth (82.9%); Hunter Valley Operations (51%); Stratford Duralie (100%); and Yarrabee (100%)

SALEABLE COAL PRODUCTION	Ownership	2019	2018	Change
Moolarben <sup>1</sup>	85%	17.8	16.5	8%
MTW <sup>2</sup>	82.9%	12.1	12.1	-%
HVO	51%	13.7	13.3	3%
Yarrabee	100%	2.8	2.6	8%
Stratford Duralie	100%	0.8	0.5	60%
Middlemount	~50%	2.7	3.8	(29%)
Watagan	100%	2.2	1.2	83%
<b>Total - 100% Basis</b>		<b>52.1</b>	<b>50.0</b>	<b>4%</b>
Total – Attributable <sup>3</sup>		35.6	32.9	8%

Strong production across Yancoal's tier-one operations (Moolarben, MTW, HVO), consolidated the step up in production achieved the prior year. Annual total saleable coal production record was 52.1Mt (35.6Mt attributable), up 4% from 50.0Mt (32.9 Mt attributable) in 2018, and total Run of Mine ("ROM") coal production was 69.0Mt (46.5Mt attributable), up 4% from 66.6Mt (42.9Mt attributable) in 2018.

Yancoal achieved total coal sales of 35.6Mt (attributable<sup>4</sup>) for the year, with a sales split (attributable) for the period of 30.1Mt thermal coal and 5.5Mt metallurgical coal.

Yancoal continued to manage the Cameby Downs and Premier Coal operations in Queensland and Western Australia respectively, on behalf of its majority shareholder Yanzhou Coal Mining Company Limited ("Yanzhou") throughout the reporting period. Production from these operations are not captured in this report.

Yancoal continued to manage the Austar, Ashton and Donaldson operations on behalf of Watagan Mining Company Pty Ltd ("Watagan").

*New South Wales (all figures reported on a 100% basis)*

In New South Wales ("NSW"), Yancoal operates the Moolarben, MTW and Stratford Duralie mines and manages the Austar, Ashton and Donaldson mines on behalf of Watagan.

Moolarben (Yancoal ownership: 85%) achieved total ROM production of 20.5Mt (2018: 18.6Mt) and saleable coal production of 17.8Mt (2018: 16.5Mt) for the reporting period.

MTW, consisting of Mount Thorley (Yancoal ownership: 80%) and Warkworth (Yancoal ownership: 84.5%), achieved ROM production of 17.6Mt (2018: 17.6Mt) and saleable coal production of 12.1Mt (2018: 12.1Mt) for the reporting period.

HVO (Yancoal ownership: 51%) achieved ROM production of 19.2Mt (2018: 19.0Mt) and saleable coal production of 13.7Mt (2018: 13.3Mt) for the reporting period.

The Stratford Duralie (Yancoal ownership: 100%) open cut mine achieved total ROM coal production of 1.2Mt (2018: 0.7Mt) and saleable coal production of 0.8Mt (2018: 0.5Mt) for the reporting period.

*Queensland (all figures reported on a 100% basis)*

In Queensland ("QLD"), Yancoal operates the Yarrabee open cut operation and has a near 50% equity interest in Middlemount Coal Pty Ltd ("Middlemount") joint venture throughout the reporting period.

Yarrabee (Yancoal ownership: 100%) open cut achieved total ROM coal production of 3.4Mt (2018: 3.5Mt) and total saleable coal production of 2.8Mt (2018: 2.6Mt) for the reporting period.

The Middlemount joint venture (Yancoal ownership: ~50%) achieved total ROM coal production of 3.4Mt (2018: 4.8Mt) and total saleable coal production of 2.7Mt (2018: 3.8Mt) for the reporting period.

<sup>4</sup> Attributable sales volume excludes purchased coal.

*Watagan Assets (100% ownership) (all figures reported on a 100% basis)*

Production at the Ashton and Astar underground mines produced a combined total ROM coal production of 3.7Mt (2018: 2.4Mt) and saleable coal production of 2.2Mt (2018: 1.2Mt) for the reporting period.

### **Infrastructure**

Yancoal exports 100% of its product through five eastern Australian ports into the Asian market, with current allocations sufficient to meet existing and potential brownfield expansion needs. The Group has ownership interests in three of these ports.

*Port Waratah Coal Services ("PWCS") 30.0%*

Yancoal has take-or-pay contracts with PWCS for the export of coal through the terminals at Newcastle, New South Wales, with a port allocation of approximately 35.1Mt per annum (100% basis).

*Newcastle Coal Infrastructure Group ("NCIG") 27%*

Yancoal continues to be one of five company shareholders involved in the NCIG export coal terminal in Newcastle, New South Wales with a port allocation allocation of approximately 19.6Mt per annum (100% basis).

*Wiggins Island Coal Export Terminal ("WICET") 9.7%*

Yancoal is one of four owners of WICET for the export of coal at Gladstone, Queensland, which has a capacity of 27.0Mt per annum. Yancoal's contracted capacity is 1.5Mt per annum, allocated to the Yarrabee Mine.

### **Rail**

Yancoal is supported by the following rail networks to transport product from mine to port:

- The NSW Hunter Valley Coal Chain supports the Moolarben, Mount Thorley Warkworth, Hunter Valley Operations, Astar, Ashton, Stratford Duralie, and Donaldson operations, with coal transported to the Port of Newcastle;
- The QLD Blackwater System supports the Yarrabee operation, with coal transported to the Port of Gladstone; and
- The QLD Goonyella System supports the Middlemount operation, with coal transported to the Port of Hay Point and Abbot Point Coal Terminal.

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 39 to 53 of this report.

Description of possible risks and uncertainties that the Group may be facing can be found in the Corporate Governance Statement on pages 65 to 93 of this report. The financial risk management objectives and policies of the Group can be found in Note D9 to the consolidated financial statements.

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

All references herein to other sections of this report form part of this Director's Report.

### **Community and Environment**

Yancoal's Health, Safety, Environment and Community Committee sets the direction for the Company's continued commitment to operating its mines to the highest environmental standards and in accordance with legislative requirements.

Each mine implements proactive strategies to update and monitor its environmental management systems and practices to meet its mine plan approvals and individual licenses to operate.

Operating to stringent environmental management conditions, including the on and off-site management and monitoring of potential dust and noise impacts, Yancoal continues to work with State and Federal Government departments to ensure full transparency in its environmental reporting.

In 2019, Yancoal contributed \$1.6 million via its Community Support Program into local and regional health, environmental, education, arts, culture and community initiatives capable of making a positive difference in the regions in which it operates.

Yancoal continues to work co-operatively with its community stakeholders, relying upon community consultative committees, local

newsletters, local media, community days and site-specific websites to help ensure the communities are engaged and informed of relevant matters related to nearby operations.

### **Greenhouse gas and energy data reporting requirements**

As Australia's largest pure play thermal coal producer, we acknowledge we have a role to play in mitigating the emissions generated by our operations and supporting investment into low emission technology to assist the reduction of downstream emissions from the consumption of coal products.

We also understand the growing interest by stakeholders regarding the potential risks and opportunities posed to our business and the broader sector as a result of an anticipated global shift towards a lower-carbon economy.

Recognising this, we continue to consider the adoption of the Taskforce on Climate-related Financial Disclosures ("TCFD") Recommendations, established by the G20 Financial Stability Board, as the framework to guide our climate-related disclosures. This includes the desire for greater transparency in the way we identify and mitigate potential risks posed by changes to our external environment at a policy, legal, market demand, reputational and technological perspective.

### *Governance*

Governance of climate-related matters, including risks and opportunities, sits within Yancoal's governance framework.

The Board has ultimate responsibility for the oversight and approval of risk management and financial investment decisions, including those relating to climate change. The Audit and Risk Management Committee and Health, Safety, Environment and Community Committee are specifically responsible for the consideration of climate-related risks and related risk management strategies.

The Board regularly considers how climate change may drive changes to physical, regulatory, commercial, and operating environments to inform the development of medium-to-long term goals and strategies.

### *Reporting on our emissions*

Yancoal reports its operational direct (scope 1) and indirect (scope 2) emissions on an annual basis in line with *the National Greenhouse and Energy Reporting Act 2007*.

The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2018/2019 S19 Energy and Emissions Report to the Federal Clean Energy Regulator on 31 October 2019.

Overall, on an operational control basis, our total scope 1 and scope 2 emissions for the period ended 30 June 2019 totalled 1,983,298 tCO<sub>2</sub>-e, a 6% decrease on the year prior. The majority of scope 1 emissions relate to fugitive emissions associated with the underground and open cut mining operations, while scope 2 emissions stem from the consumption of electricity purchased from the grid.

### *Summary of Greenhouse Emissions*

Emissions Reporting Period	Scope 1 Emissions (tCO <sub>2</sub> -e) <sup>5</sup>	Scope 2 Emissions (tCO <sub>2</sub> -e)	Scope 1 and Scope 2 Emissions (tCO <sub>2</sub> -e)
2017/2018	1,754,907	359,620	2,114,527
2018/2019	1,615,597	367,701	1,983,298
% Variance	-8%	-2%	-6%

While we do not track our scope 3 emissions associated with the consumption of our coal products, we actively support the development of technologies aimed at reducing the emissions intensity of these downstream activities. This includes supporting the development and installation of high efficiency, low emissions technologies in coal fired power stations and investment in carbon capture and storage technology.

<sup>5</sup> tCO<sub>2</sub>-e: tonnes of carbon dioxide equivalent

***Significant changes in the state of affairs***

There have been no significant changes during the financial year that significantly affected the operations of the Group, the results of those operations or the state of affairs of Yancoal or the Group.

***Matters subsequent to the end of the financial year***

On 28 February 2020, the Directors recommended a final unfranked dividend totaling \$280 million (21.21 cents per share), with a record date of 16 March 2020 and a payment date of 29 April 2020.

Other than as disclosed above, no matters or circumstances have occurred subsequent to the end of the financial period which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in the subsequent financial period.

***Likely developments and expected results of operations***

Yancoal continues to pursue its long-term strategy for organic growth via the progression of brownfield expansion and extension projects.

Key projects include the conceptual underground mine at Mount Thorley Warkworth with an estimated 6Mtpa ROM. Work is underway to inform a pre-feasibility study due to be submitted to the Board for review by mid-2020.

At Moolarben, the optimisation process continues after receiving Federal Government approval to increase open cut mine production in September 2019. Yancoal continues to maximise improved extraction rates in both the open cut and underground mines; this includes working with external stakeholders to ease rail capacity constraints.

Yancoal will maintain strong cost discipline, with 2020 cash costs (excluding government royalties) expected to remain flat at around \$61/t (2018: \$63/t).

Guidance for attributable saleable coal production in 2020 is approximately 36 million tonnes (2018: 35.6Mt).

The forecast for 2020 capital expenditure is around \$380 million (attributable).

## Information on Directors

**Baocai Zhang. Non- Executive Director (26 June 2012 – 19 January 2014, 8 June 2018 - current), Co-Vice Chairman (20 December 2013 – 8 June 2018), Executive Director (20 January 2014 – 8 June 2018), Chairman of the Board (8 June 2018 – current). EMBA.**

### **Experience and expertise**

Mr Zhang, aged 52, joined Yanzhou's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou in 2002. He was appointed as a Director and Company Secretary of Yanzhou in 2006 and Deputy General Manager in 2011. Mr Zhang was appointed as Non-Executive Director of Yancoal on 26 June 2012, and subsequently appointed a Co-Vice Chairman of Yancoal on 20 December 2013. He became the Chair of the Executive Committee of Yancoal on 20 January 2014. In October 2015, he became a director and a standing member of the Party Committee of Yankuang Group Company Limited. Mr Zhang was appointed as the Chair of the Board of Yancoal on 8 June 2018. Mr Zhang planned and played a key role in the acquisition of Felix Resources Limited and the merger with Gloucester Coal Ltd in Australia. He also led Yanzhou's acquisition of potash exploration permits in Canada in 2011. He has considerable experience in capital management and business development in the coal industry, in particular in financial control, corporate governance and compliance for listed companies in Australia and overseas.

Mr Zhang graduated from Nankai University. He is a senior accountant with an EMBA degree.

### **Other current key directorships**

Director of Yankuang Group Company Limited  
Chairman and Director of Yankuang Group Finance Co., Ltd  
Chairman of Shandong Geo-Mineral Co.Ltd

### **Former directorships in last three years**

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd  
Director of Inner Mongolia Haosheng Coal Mining Limited  
\* Director of Yanzhou Coal Mining Company Limited (1171 HK) (10 November 2006 – 3 June 2016)  
Director of Yancoal International (Holding) Co., Ltd

### **Special responsibilities**

Chairman of the Board  
Chairman of the Strategy and Development Committee  
Member of the Nomination and Remuneration Committee

### **Interests in shares and options**

274,404 fully paid Yancoal ordinary shares

**Fucun Wang. Executive Director and Chair of the Executive Committee (8 June 2018 - current), Co-Vice Chairman (8 June 2018 – current). MBA.**

### **Experience and expertise**

Mr Fucun Wang, aged 56, started his career in July 1983. He holds a master's degree of business administration. Mr Wang is a senior statistician. He was formerly the Deputy Chief Economist of Yankuang Group and served concurrently as the Head of the Investment and Development Department and the Director of the Strategic Planning and Decision Centre of Yankuang Group. Mr Wang successively served as the Deputy Director of Planning Department, the Deputy Director and Director of the Department of Planning and Development of Yankuang Group previously.

Mr Wang holds a master degree and completed a Masters of Business Administration degree from Hebei Industrial University in China in June 2014.

### **Other current key directorships**

Director of various subsidiaries of Yancoal Australia Ltd

### **Special responsibilities**

Co-Vice Chairman of the Board Chairman of the Executive Committee  
Member of the Health, Safety, Environment and Community Committee

### **Interests in shares and options**

None

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\* Listed company

**Cunliang Lai. Executive Director (18 November 2004 – 19 January 2014), Co-Vice Chairman (26 June 2012 – 6 June 2018), Non-Executive Director (20 January 2014 – Current). DE, EMBA.**

***Experience and expertise***

Mr Lai, aged 59, joined Yanzhou's predecessor in 1980. He was appointed as the Head of Xinglongzhuang Coal Mine of Yanzhou in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou. Before the merger with Gloucester Coal Ltd, Mr Lai was an Executive Director of Yancoal and was appointed the Co-Vice Chairman and Chair of the Executive Committee in 2012. Mr Lai successfully completed the acquisition of the Austar Coal Mine and the establishment of an appropriate corporate governance structure for Yancoal. Mr Lai has also successfully applied the Longwall Top Coal Caving technology in Australia and has gained considerable experience in Australian coal business management.

Mr Lai graduated from Nankai University and the Coal Science Research Institute. He is a researcher in engineering technology application with a Doctorate degree in Engineering and an EMBA degree.

***Other current key directorships***

None

***Former directorships in last three years***

Director of Bauxite Resources Limited (ASX: BAU) (7 March 2014 – 21 January 2016)

***Special responsibilities***

None

***Interests in shares and options***

None

**Qingchun Zhao. Non-Executive Director (28 April 2017 - Current). EMBA**

***Experience and expertise***

Mr Zhao, aged 51, is a senior accountant with an EMBA degree, and is a Director and the Chief Financial Officer of Yanzhou.

Mr Zhao joined Yanzhou's predecessor in 1989 and was appointed as the Chief Accountant of the Finance Department in 2002 and Director of the Planning and Finance Department of Yanzhou in 2006. In March 2011, he was appointed as the Vice Chief Financial Officer and the Director of the Finance Department of Yanzhou. In March 2014, Mr. Zhao was appointed Assistant General Manager and the Director of the Finance Management Department of Yanzhou.

In January 2016, he was appointed as the Chief Financial Officer of Yanzhou and in June 2016, he was appointed as a director of Yanzhou. Mr Zhao graduated from Nankai University.

***Other current key directorships***

\*Director of Yanzhou Coal Mining Company Limited (1171 HK) (June 2016 – current)

Director of Zhongyin Financial Leasing Co., Ltd

Director of Shanghai CIFCO Co., Ltd

Director of Yancoal International (Holding) Co.Ltd

Director of Yancoal International Trading Co. Ltd

Director of Yancoal International Resources Co., Ltd

Director of Yancoal International Technology Development Co., Ltd

Chairman of Shanghai Jujiang Asset Management Co., Ltd

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Limited

Director of Yankuang Group Finance Co., Ltd

Director of Qilu Bank Co.,Ltd

Director of Shanghai Mid-Term Futures Co., Ltd

***Former directorships in last three years***

Director of Duanxin Investment Holding (Shenzhen) Co., Ltd

Director of Qingdao Zhongyin International Trade Co., Ltd

***Special responsibilities***

Member of the Strategy and Development Committee

Member of the Audit and Risk Management Committee

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\* Listed company

**Interests in shares and options**

None

**Fuqi Wang. Non-Executive Director (23 April 2015 – Current).** ME, EMBA.

**Experience and expertise**

Mr Fuqi Wang, aged 55, is a research fellow in applied engineering technology with an EMBA degree and Master of Engineering, and serves as the Chief Engineer of Yanzhou.

Mr Wang joined Yanzhou's predecessor in 1985. In 2000, he was appointed as the Chief Engineer of Production and Technology Division of Yankuang Group. In 2002, he served as the director of Production and Technique Department of Yanzhou. In 2003, he was appointed as the Deputy Chief Engineer and Director of Production and Technique Department of Yanzhou. In March 2014, he was appointed as the Chief Engineer of Yanzhou. Mr Wang graduated from Northeastern University and Nankai University.

**Other current key directorships**

Director of Yanmei Heze Neng Hua Co., Ltd  
Director of Shanxi Future Energy Chemical Co. Ltd.

**Former directorships in last three years**

None

**Special responsibilities**

Member of the Health, Safety, Environment and Community Committee  
Member of the Strategy and Development Committee

**Interests in shares and options**

None

**Xiangqian Wu. Non-Executive Director (28 April 2017 - Current).** DE

**Experience and expertise**

Mr Wu, aged 53, joined Yanzhou's predecessor in 1988. In 2003, he was appointed as the Deputy Head of Jining No.3 Coal Mine of Yanzhou.

In 2004, he was appointed as the Deputy Head and Chief Engineer of Jining No.3 Coal Mine of Yanzhou. In 2006, he was appointed as the Head of Jining No.3 Coal Mine of Yanzhou. From April 2014 to January 2016, he was the Chairman and General Manager of Yanzhou Coal Ordos Neng Hua Co., Ltd. and Chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd.

In May 2014, he was appointed as a Director of the Yanzhou Coal Mining Company Limited. In January 2016, he was appointed as the General Manager of Yanzhou. Mr. Wu graduated from Shandong University of Science and Technology and China University of Mining and Technology.

Mr Wu is a Research Fellow in Applied Engineering Technology and a Doctor of Engineering.

**Other current key directorships**

\* Director of Yanzhou Coal Mining Company Limited (1171 HK) (14 May 2014 – current)  
Director of Yancoal International (Holding) Co. Ltd  
Director of Yancoal International Trading Co. Ltd  
Director of Yancoal International Resources Co., Ltd  
Director of Yancoal International Technology Development Co., Ltd

**Former directorships in last three years**

None

**Special responsibilities**

Member of the Nomination and Remuneration Committee

**Interests in shares and options**

None

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\* Listed company

**Xing Feng. Non-Executive Director (15 December 2017 - Current). EMBA**

***Experience and expertise***

Mr Feng, aged 46, started his career with China Cinda Asset Management Co., Limited (Cinda) in 1999, and has served in various capacities in the Department of General Management, Department of General Business and Department of Investment and Financing. He has abundant experience in corporate governance, investment and financing.

He was appointed Assistant General Manager of Cinda's Strategic Client Department in 2017, where he is responsible for implementing the Department's development strategy plan, involvement in business review and leading the implementation of the investment plan. He has successfully completed a number of overseas M&A investments and mixed-ownership reform of SOE projects.

Mr. Feng holds a Bachelor of Engineering (Electrical Engineering and Automation) from Tsinghua University and an EMBA degree from Peking University.

***Other current key directorships***

Director of China Broadcasting and Telecommunications Corporation  
Director of China Cinda (Hong Kong) Holdings Company Limited

***Former directorships in last three years***

None

***Special responsibilities***

Member of the Strategy and Development Committee

***Interests in shares and options***

None

**Gregory James Fletcher. Independent Non-Executive Director (26 June 2012 - Current), Co-Vice Chairman (1 March 2018 - current). BCom, CA.**

***Experience and expertise***

Mr Fletcher, aged 63, was a Director of Gloucester Coal Ltd from June 2009. He was appointed a Director of Yancoal after the merger of Yancoal and Gloucester Coal Ltd in June 2012. Mr Fletcher was elected a Co-Vice Chairman of Yancoal in 2018.

Prior to 2009 Mr Fletcher was a senior partner of Deloitte for 16 years during which he held many senior roles as well as working with major Australian listed companies with operations internationally including the Asia Pacific region. He also worked closely with organisations in China, Indonesia and Mongolia in enhancing governance practices.

Since 2009 Mr Fletcher has taken on Board and Audit Committee roles. He has been a member of the NSW Auditor General's Audit and Risk Committee, on the Board of Railcorp and WDS Limited and Chairman of the Roads and Maritime Audit and Risk Committee and City of Sydney Audit and Risk Committee.

Mr Fletcher holds a Bachelor of Commerce and he is a Chartered Accountant.

***Other current key directorships***

Chairman of SMEG Australia Pty Ltd

\* Director of Saunders International Limited, Chairman Audit and Risk Committee and Member of the Remuneration and Nomination Committee (ASX:SND) (1 July 2015 – current)

Director of TAFE NSW, Member of the Audit and Risk Committee and Member of the Minister's Priority Implementation Committee

Chairman of NSW Electoral Commission Audit and Risk Committee

Chairman of NSW HealthShare/eHealth Audit and Risk Committee

Member of Audit and Risk Committee, Railcorp

Member of Audit, Risk and Committee, NSW Health Infrastructure

Member of Audit and Risk Committee NSW State Transit Authority

***Former directorships in last three years***

Director of Yancoal SCN Limited (ASX:YCN) (21 November 2014 – 30 August 2018)

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\* Listed company

**Special responsibilities**

Co-Vice Chairman  
Chairman of the Audit and Risk Management Committee  
Chairman of the Independent Board Committee  
Member of the Nomination and Remuneration Committee

**Interests in shares and options**

2,100 fully paid Yancoal ordinary shares.

**Dr Geoffrey William Raby. Independent Non-Executive Director (26 June 2012 - Current).** BEc (Hons), MEd and PhD (Economics).

**Experience and expertise**

Dr Geoffrey Raby, aged 66, was appointed a Director of Yancoal in 2012.

Dr Raby was formerly Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998 to 2001), Australia's APEC Ambassador (2003 to 2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex-officio member of the Boards of Austrade and Export Finance and Insurance Corporation.

Dr Geoffrey Raby holds a Bachelor of Economics, a Masters of Economics and a Doctor of Philosophy in Economics.

**Other current key directorships**

\*Director of OceanaGold Corporation Limited (ASX:OGC) (5 August 2011 – current)

**Former directorships in last three years**

\*Director of Fortescue Metals Group (ASX:FMG) (18 August 2011 – 5 December 2016)

\*Director of SmartTrans Holding Limited (now Orcoda Limited) (ASX:ODA) (6 August 2011– 1 April 2016)

\*Director of YPB Group Ltd (ASX:YPB) (31 July 2014 – 5 March 2016)

\*Director of iSentia Group Ltd (ASX:ISD) (9 May 2014 – 20 July 2018)

\*Chairman of Wiseway Group (ASX:WWG) (18-Jul-2018 – 30 April 2019)

**Special responsibilities**

Member of the Strategy and Development Committee  
Member of the Health, Safety, Environment and Community Committee

**Interests in shares and options**

22,858 fully paid Yancoal ordinary shares.

**Helen Jane Gillies. Independent Non-Executive Director (30 January 2018 - Current).** MBA, MConstrLaw, LLB(Hons), BCom, AICD

**Experience and expertise**

Helen Gillies is an experienced Director and legal, risk and compliance professional.

Ms Gillies, aged 55, was appointed as a Non-Executive Director of Bankstown and Camden Airports in September 2017 and a Non-Executive Director of ASX-listed company Monadelphous Group Limited and Red Flag Group Limited in 2016. Previously, she served as a director of Sinclair Knight Merz Management Pty Limited from October 2002 to September 2008 and Sinclair Knight Merz Management Pty Limited from September 2010 to December 2013; she was the general manager (risk) and general counsel of Sinclair Knight Merz from 1995 to 2013, and a non-executive director of Civil Aviation Safety Authority from 2009 to 2014.

Ms Helen Gillies holds a Master of Business Administration and a Master of Construction Law, as well as undergraduate degrees in Commerce and Law. Ms Gillies is a Fellow of the Australian Institute of Company Directors.

**Other current key directorships**

Director of Red Flag Group (Holdings) Limited

\*Director of Monadelphous Group Limited (ASX:MND) (5 September 2016 – current)

Director of BAC Holdings Pty Ltd

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\* Listed company

**Former directorships in last three years**

None

**Special responsibilities**

Chair of the Nomination and Remuneration Committee  
Member of the Audit and Risk Management Committee

**Interests in shares and options**

None

**David James Moult. Independent Non-Executive Director (30 January 2018 - Current).** C. Eng (Mining), MBA, FAusIMM, FIMMM, MAICD

**Experience and expertise**

David Moult, aged 63, was appointed as a Director of Yancoal in January 2018. He has over 40 years' global coal mining experience. He was Managing Director and CEO of Centennial Coal Company Limited from 2011 to 2017, then a non-executive director of Centennial Coal from May 2017 until January 2018. He previously held the position of Chief Operating Officer of Centennial Coal from 1998 to 2011. Mr Moult has worked with Joy Mining Machinery in the USA and Australia, RJB Mining PLC and British Coal in the UK.

Mr Moult is a former Chairman and Director of the Australian Coal Association Low Emissions Technology Ltd, former Director of the Minerals Council of Australia, former Chairman and Director of the New South Wales Minerals Council and former Director of the Newcastle Coal Infrastructure Group and Port Kembla Coal Terminal.

Mr Moult is a Member of the University of NSW Education Trust Advisory Committee.

Mr. Moult holds a Master of Business Administration, and a Higher National Diploma in Mining. Mr Moult is a Chartered Mining Engineer in the United Kingdom, a Fellow of the Australasian Institute of Mining and Metallurgy, a Fellow of the Institute of Materials, Minerals and Mining, an European Engineer of European Federation of National Engineering Associations and a member of the Australia Institute of Company Directors.

Mr Moult was awarded the New South Wales Minerals Council award for Outstanding Contribution to Mining 2017.

**Other current key directorships**

Director of Coal Services Pty Ltd  
Director of Coal Mines Insurance Pty Ltd  
Director of Mines Rescue Pty Ltd

**Former directorships in last three years**

Non-Executive Director Centennial Coal Company Limited  
Managing Director and CEO of Centennial Coal Company Limited  
Director of the Minerals Council of Australia  
Chairman and Director of the Australian Coal Association Low Emissions Technology Ltd  
Director of the New South Wales Minerals Council

**Special responsibilities**

Chairman of the Health, Safety, Environment and Community Committee  
Member of the Nomination and Remuneration Committee  
Member of the Audit and Risk Management Committee

**Interests in shares and options**

None

**Changes in Directors' Information pursuant to Rule 13.51B(1) of the HK Listing Rules**

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited ("HK Listing Rules") are set out below:

**Baocai Zhang. Non- Executive Director**

Appointed as a director of Shandong Geo-Mineral Co. Ltd, a company incorporated in China, with effect from 27 August 2019.

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\* Listed company

**Dr Geoffrey William Raby. Independent Non-Executive Director**

\*Resigned as the Chairman of Wiseway Group (ASX:WWG) with effect from 1 May 2019.

**Company secretary, Chief Legal, Compliance, Corporate Affairs Officer**

**Laura Ling Zhang (6 September 2005 – Current).** BA, MA, EMBA, AGIA, FCIS, GAICD

Laura Ling Zhang, aged 42, was appointed as the Company Secretary on 6 September 2005.

Ms. Zhang is one of the founding executives of the Company and has been the Company Secretary since September 2005. She has over 20 years in the mining industry and currently also holds the office of Chief Legal, Compliance and Corporate Affairs Officer. She oversees the Company's corporate governance, group legal issues, corporate compliance, projects / corporate initiatives, investor relations, corporate affairs and media communications functions.

Ms. Zhang graduated with a Bachelor of Arts degree and a Master of Arts degree in language literature and cross-cultural communication from China University of Mining. Ms. Zhang also had graduate diploma of applied corporate governance from Institute of Australian Institute (formerly known as Chartered Secretaries Australia) in 2008, and foundations of directorship certificate of Australian Institute of Company Directors in 2013. Ms Zhang completed her EMBA degree at Australian Graduate School of Management in the University of New South Wales in 2019. Ms. Zhang was previously a Fellow of the Governance Institute of Australia and since June 2018, is a Fellow member of the Hong Kong Institute of Chartered Secretaries. Ms. Zhang has been a member of the Australian Institute of Company Directors since 2009.

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\* Listed company

### Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2019, and the numbers of meetings attended by each Director were:

	General Meetings		Meetings of the Board of Directors		Meetings of Committees							
	Annual General Meeting		Full meetings of Directors		Audit and Risk Management		Health, Safety and Environment		Nomination and Remuneration		Strategy and Development	
	A	B	A	B	A	B	A	B	A	B	A	B
Baocai Zhang	1	1	9	9					3	3	3	3
Fucun Wang	1	1	9	9			4	4				
Cunliang Lai	0	1	9	9								
Xiangqian Wu	0	1	6	9					2	3		
Fuqi Wang	0	1	9	9			3	4			3	3
Qingchun Zhao	0	1	9	9	3	4					2	3
Gregory James Fletcher	1	1	9	9	4	4			3	3		
Geoffrey William Raby	1	1	9*	9			4	4			3	3
Helen Jane Gillies	1	1	8	9	4	4			3	3		
David James Mout	1	1	9	9	4	4	4	4	3	3		
Xing Feng	0	1	9	9							3	3

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the Committee during the year.

\* Dr Raby on 18 December 2019 left the meeting at 3pm, immediately after the closure of the Directors' in-camera session.

## Remuneration Report – Audited

Dear Shareholder,

I am pleased to introduce the Yancoal Australia Ltd (the “Company”) and its controlled entities (the “Group” or “Yancoal”) 2019 Remuneration Report.

### *2019 Performance*

Yancoal has continued to deliver strong performance in 2019, as our increased production and robust cost management approach has enabled us to navigate challenging coal prices. Key performance highlights include:

- Attributable ROM tonnes increased by 8% on the prior year; and
- Attributable saleable coal production increased by 8% on the prior year.

People and Safety, in addition to Innovation, Excellence and Integrity; are at the core of everything we do. Hence, we are also pleased to report a significant improvement in the results from our second staff engagement survey, which demonstrates the positive impact of the culture programs introduced across each site.

### *Remuneration Framework Review*

Over 2019 the Nomination and Remuneration Committee continued to review the Company's remuneration framework to ensure remuneration arrangements were in line with sound corporate governance for an Australian and Hong Kong listed company and for a company of Yancoal's size.

In 2019, a change was made to the Board and Board Committee fees with fees being adjusted to be sufficient to attract and retain high quality directors. This was the first adjustment to Board and Committee fees since 2012 and reflects the size and complexity of Yancoal. No changes were made to the executive remuneration framework in 2019 following the changes implemented in 2018 to better align management with shareholder interests.

This report sets out remuneration information for the Company's Key Management Personnel for the 12 months ended 31 December 2019.

Yours sincerely,



Helen Gillies,  
Chair of the Nomination and Remuneration Committee

## 1. Key Management Personnel

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chairman of the Executive Committee and the Chief Executive Officer. The Executive Committee is a management committee comprising the Chairman of the Executive Committee, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and any other officers that the Board resolves will be members of the Executive Committee.

Consistent with the Constitution, the Company's majority shareholder, Yanzhou Coal Mining Company Ltd ("Yanzhou"), can nominate a director to the position of the Chairman of the Executive Committee and the Chairman of the Board can recommend a person to the position of Chief Financial Officer.

No Board or Committee changes took place during 2019.

The Key Management Personnel ("KMP") comprise directors of the Company ("Directors") and nominated members of the Executive Committee ("Executive KMPs"). Details of the KMP are set out in Table 1.

Together, the Executive Director and Executive KMPs are referred to as "Executives" in this report.

**TABLE 1: Details of KMP**

Name	Position	Time in Role
<b>Non-Executive Directors</b>		
<b>Baocai Zhang</b>	Director Chairman of the Board Chairman of the Strategy and Development Committee Member of the Nomination and Remuneration Committee	Full year
<b>Cunliang Lai</b>	Director	Full year
<b>Fuqi Wang</b>	Director Member of the Health, Safety, Environment and Community Committee Member of the Strategy and Development Committee	Full year
<b>Qingchun Zhao</b>	Director Member of the Audit and Risk Management Committee Member of the Strategy and Development Committee	Full year
<b>Xiang Qian Wu</b>	Director Member of the Nomination and Remuneration Committee	Full year
<b>Xing Feng</b>	Director Member of the Strategy and Development Committee	Full year
<b>Gregory James Fletcher</b>	Independent Director Co-Vice Chairman Chairman of the Audit and Risk Management Committee Member of the Nomination and Remuneration Committee	Full year
<b>Geoffrey William Raby</b>	Independent Director Member of the Health, Safety, Environment and Community Committee Member of the Strategy and Development Committee	Full year
<b>Helen Jane Gillies</b>	Independent Director Chairman of the Nomination and Remuneration Committee Member of the Audit and Risk Management Committee	Full year
<b>David James Moulton</b>	Independent Director Chairman of the Health, Safety, Environment and Community Committee Member of the Nomination and Remuneration Committee Member of the Audit and Risk Management Committee	Full year

Executive Directors		
<b>Fucun Wang</b>	Director, Co-Vice Chairman Chairman of the Executive Committee (“CEC”) Member of the Health, Safety, Environment and Community Committee	Full year
Executive KMP		
<b>Reinhold Schmidt</b>	Chief Executive Officer (“CEO”)	Full year
<b>Lei Zhang</b>	Chief Financial Officer (“CFO”)	Full year
<b>Paul Stringer</b>	Chief Operating Officer (“COO”)	Full year

### Information on Senior Management

**Reinhold Schmidt. Chief Executive Officer (26 August 2013- current).** ME (Mining Engineering), MSc (Mineral Economics), BE (Mining).

#### *Experience and expertise*

Mr Schmidt, aged 54, was appointed as the Chief Executive Officer of the Company on 26 August 2013.

Mr. Schmidt has over 20 years’ experience in the mining industry. Prior to joining the Group, he served as the executive general manager of Wandoan Project for Xstrata Coal Pty Ltd from February 2008 to February 2009 and the chief operating officer there from March 2009 to June 2013. He was also formerly the president of the Colombian coal assets of Glencore International.

Mr. Schmidt graduated with a Bachelor degree in Engineering (Mining) (cum laude) from the University of Pretoria in South Africa in March 1989, a Master of Engineering (Mining Engineering) degree and Master of Science in Engineering (Mineral Economics) degree from the University of Witwatersrand, Johannesburg, South Africa in June 1991 and December 1991, respectively.

#### **Current directorships and key positions within Group**

- 1) AMH (Chinchilla Coal) Pty Ltd
- 2) Abakk Pty Ltd
- 3) Ashton Coal Mines Limited
- 4) Ashton Coal Operations Pty Limited
- 5) Athena Coal Operations Pty Ltd
- 6) Athena Coal Sales Pty Ltd
- 7) Austar Coal Mine Pty Limited
- 8) Australian Coal Resources Limited
- 9) Black Hill Land Pty Ltd
- 10) Catherine Hill Bay Land Pty Ltd
- 11) CNA Bengalla Investments Pty Limited
- 12) CNA Resources Limited
- 13) CNA Warkworth Australasia Pty Limited
- 14) CNA Warkworth Pty Ltd
- 15) Coal & Allied Industries Limited
- 16) Coal & Allied Mining Services Pty Limited
- 17) Coal & Allied (NSW) Pty Limited
- 18) Coal & Allied Operations Pty Ltd
- 19) CIM Duralie Pty Ltd
- 20) CIM Mining Pty Ltd
- 21) CIM Services Pty Ltd
- 22) CIM Stratford Pty Ltd
- 23) Donaldson Coal Finance Pty Limited
- 24) Donaldson Coal Holdings Limited
- 25) Donaldson Coal Pty Ltd
- 26) Duralie Coal Marketing Pty Ltd
- 27) Duralie Coal Pty Ltd
- 28) Eucla Mining N.L.
- 29) Felix NSW Pty Ltd
- 30) Gloucester (SPV) Pty Ltd

- 31) Gloucester (Sub Holdings 1) Pty Limited
- 32) Gloucester (Sub Holdings 2) Pty Limited
- 33) Gloucester Coal Ltd
- 34) Gwandalan Land Pty Ltd
- 35) Kalamah Pty Ltd
- 36) Lower Hunter Land Holdings Pty Ltd
- 37) Minmi Land Pty Ltd
- 38) Miller Pohang Coal Co Pty Ltd
- 39) Monash Coal Holdings Pty Limited
- 40) Monash Coal Pty Ltd
- 41) Moolarben Coal Mines Pty Limited
- 42) Moolarben Coal Operations Pty Ltd
- 43) Moolarben Coal Sales Pty Ltd
- 44) Mount Thorley Coal Loading Ltd
- 45) Mount Thorley Operations Pty Limited
- 46) Namoi Valley Coal Pty Limited
- 47) Newcastle Coal Company Pty Ltd
- 48) Nords Wharf Land Pty Ltd
- 49) Northern (Rhondda) Collieries Pty Ltd
- 50) Novacoal Australia Pty Limited
- 51) Oaklands Coal Pty Limited
- 52) Parallax Holdings Pty Limited
- 53) Primecoal International Pty Ltd
- 54) Proserpina Coal Pty Ltd
- 55) R.W. Miller (Holdings) Limited
- 56) SASE Pty Ltd
- 57) Stratford Coal Marketing Pty Ltd
- 58) Stratford Coal Pty. Ltd.
- 59) Warkworth Coal Sales Ltd
- 60) Warkworth Mining Limited
- 61) Warkworth Pastoral Co Pty Ltd
- 62) Warkworth Tailings Treatment Pty Ltd
- 63) Westralian Prospectors N.L.
- 64) White Mining (NSW) Pty Limited
- 65) White Mining Limited
- 66) White Mining Services Pty Limited
- 67) Yancoal Australia Sales Pty Ltd
- 68) Yancoal Moolarben Pty Ltd
- 69) Yancoal Resources Limited
- 70) Yancoal SCN Limited
- 71) Yarrabee Coal Company Pty. Ltd
- 72) Watagan Mining Company Pty Ltd

***Interests in shares and options***

312,278 fully paid Yancoal ordinary shares

**Lei Zhang, Chief Financial Officer (31 March 2014 – current).** PhD, MBA, CPA

***Experience and expertise***

Dr. Lei Zhang, aged 47, was appointed as the Chief Financial Officer of the Company on 31 March 2014.

Prior to joining the Group, Dr. Zhang served as the senior vice president and managing director of SK Great China private equity fund & principal investment from February 2013 to March 2014, general manager of mergers and acquisitions and commercial finance at Shell Far East from July 2012 to March 2013, executive director and chief financial officer of Chinalco Mining Corp. International from September 2010 to June 2012, vice president and chief financial officer of Chinalco Overseas Holdings from September 2010 to June 2012, and was with Siemens from April 1997 to September 2010 including serving as vice president of Siemens Ltd. China and cluster chief financial officer of Siemens Real Estate North East Asia from September 2008 to September 2010.

Dr. Zhang graduated with a Doctor of Economics from Graduate School of Chinese Academy of Social Sciences in Beijing, China in June 2010, and a Master of Business Administration degree from Peking University in China in June 2005, respectively. Dr. Zhang is a qualified Certified Practising Accountant (CPA) and China Inter-bank Market Dealer and also holds a China Bond Custody Qualifying Certificate.

**Current directorships and key positions within Group**

**- Current directorships within Group**

- 1) AMH (Chinchilla Coal) Pty Ltd
- 2) Athena Coal Operations Pty Ltd
- 3) Athena Coal Sales Pty Ltd
- 4) Australian Coal Resources Limited
- 5) Black Hill Land Pty Ltd
- 6) Catherine Hill Bay Land Pty Ltd
- 7) CNA Bengalla Investments Pty Limited
- 8) CNA Resources Limited
- 9) CNA Warkworth Australasia Pty Limited
- 10) CNA Warkworth Pty Ltd
- 11) Coal & Allied Industries Limited
- 12) Coal & Allied Mining Services Pty Limited
- 13) Coal & Allied (NSW) Pty Limited
- 14) Coal & Allied Operations Pty Ltd
- 15) CIM Duralie Pty Ltd
- 16) CIM Mining Pty Ltd
- 17) CIM Services Pty Ltd
- 18) CIM Stratford Pty Ltd
- 19) Duralie Coal Marketing Pty Ltd
- 20) Duralie Coal Pty Ltd
- 21) Eucla Mining N.L.
- 22) Felix NSW Pty Ltd
- 23) Gloucester (SPV) Pty Ltd
- 24) Gloucester (Sub Holdings 2) Pty Limited
- 25) Gloucester Coal Ltd
- 26) Gwandalan Land Pty Ltd
- 27) Kalamah Pty Ltd
- 28) Lower Hunter Land Holdings Pty Ltd
- 29) Minmi Land Pty Ltd
- 30) Miller Pohang Coal Co Pty Ltd
- 31) Monash Coal Holdings Pty Limited
- 32) Monash Coal Pty Ltd
- 33) Moolarben Coal Mines Pty Limited
- 34) Moolarben Coal Operations Pty Ltd
- 35) Moolarben Coal Sales Pty Ltd
- 36) Mount Thorley Coal Loading Ltd
- 37) Mount Thorley Operations Pty Limited
- 38) Namoi Valley Coal Pty Limited
- 39) Nords Wharf Land Pty Ltd
- 40) Northern (Rhondda) Collieries Pty Ltd
- 41) Novacoal Australia Pty Limited
- 42) Oaklands Coal Pty Limited
- 43) Parallax Holdings Pty Limited
- 44) Proserpina Coal Pty Ltd
- 45) R.W. Miller (Holdings) Limited
- 46) SASE Pty Ltd
- 47) Stratford Coal Marketing Pty Ltd
- 48) Stratford Coal Pty. Ltd.
- 49) Warkworth Coal Sales Ltd
- 50) Warkworth Mining Limited
- 51) Warkworth Pastoral Co Pty Ltd
- 52) Warkworth Tailings Treatment Pty Ltd

- 53) Westralian Prospectors N.L.
- 54) Yancoal Australia Sales Pty Ltd
- 55) Yancoal Moolarben Pty Ltd
- 56) Yancoal Resources Limited
- 57) Yancoal SCN Limited
- 58) Yarrabee Coal Company Pty. Ltd.

- **Current key positions (Company Secretary) within Group**

- 1) Abakk Pty Ltd
- 2) Ashton Coal Mines Limited
- 3) Ashton Coal Operations Pty Limited
- 4) Austar Coal Mine Pty Limited
- 5) Donaldson Coal Finance Pty Limited
- 6) Donaldson Coal Holdings Limited
- 7) Donaldson Coal Pty Ltd
- 8) Gloucester (Sub Holdings 1) Pty Limited
- 9) Newcastle Coal Company Pty Ltd
- 10) Primecoal International Pty Ltd
- 11) White Mining (NSW) Pty Limited
- 12) White Mining Limited
- 13) White Mining Services Pty Limited
- 14) Watagan Mining Company Pty Ltd

**Interests in shares and options**

97,127 fully paid Yancoal ordinary shares (including 28,233 held by Ying Zhang, a related party of Mr Lei Zhang)

**Paul Stringer. Chief Operating Officer (29 May 2018 – Current).**

**Experience and expertise**

Mr Stringer, aged 65, was appointed as Chief Operating Officer (COO) on 29 May 2018.

Mr Stringer has over 45 years' experience in mining and mining related industries. Prior to being appointed as COO, he served as General Manager of Syntech Resources Cameby Downs Mine (since 2012), General Manager of Yancoal Yarrabee Mine (since 2013), GM of Yancoal's Queensland/Western Australia Mines (since 2014), and General Manager of Yancoal's East Coast Mines (since 2016).

**Current directorships and key positions within Group**

- 1) Warkworth Coal Sales Ltd
- 2) Warkworth Mining Limited
- 3) Warkworth Pastoral Co Pty Ltd
- 4) Warkworth Tailings Treatment Pty Ltd

**Interests in shares and options**

56,131 fully paid Yancoal ordinary shares

## 2. Remuneration principles and framework

The Company's governing principles for remuneration are:

- to ensure remuneration is equitable, aligned with the long-term interests of the Company and its shareholders, and complies with relevant Company policies, including the Diversity Policy;
- to provide market competitive remuneration and conditions to attract and retain skilled and motivated employees;
- to structure incentives linking reward with the achievement of Company strategy and challenging business objectives, and the delivery of sustainable returns over the long-term; and
- to reward based on performance, by acknowledging the contribution of outstanding performers and for conduct aligned to Yancoal's values.

### 2.1 Remuneration governance framework

Consistent with its Board Charter, the Board oversees the appointment, remuneration and performance of all KMP (other than Directors) and other members of the Executive Committee. On these issues, the Board receives recommendations from the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee's objective is to assist the Board by making recommendations in relation to:

- Board composition and succession planning for the Board;
- remuneration levels and structure for KMP and other members of the Executive Committee as appointed from time to time;
- the public reporting of remuneration for KMP and other members of the Executive Committee;
- the performance assessment of the Executive Committee;
- designing Company remuneration policy and regulations with regard to corporate governance; and
- diversity.

### 2.2 Use of external remuneration advisors

From time to time, the Nomination and Remuneration Committee seeks and considers advice from external advisors who are engaged by and report directly to the Nomination and Remuneration Committee. Such advice will typically cover remuneration levels, independent benchmarking data and information regarding best practice, trends and regulatory developments. Following a substantial revamp of the remuneration framework in 2018, no remuneration recommendations were obtained during 2019 as defined under the *Corporations Act 2001 (Cth)*.

## 3. Executive remuneration

### 3.1 Objective

The executive remuneration framework is structured to be market competitive and to reflect the reward strategy of the Company. Through this framework the Company seeks to align executive remuneration with:

- Shareholder interests by:
  - making economic performance a core component of the overall remuneration plan design;
  - focusing on the key value drivers of the business including employee safety, operational performance and cost control; and
  - attracting and retaining high calibre executives.
- Executive interests by:
  - rewarding capability and experience;
  - reflecting competitive reward for contribution to growth in company performance;
  - providing a clear structure for earning rewards; and
  - providing recognition for contribution.

Details of remuneration for all Executives are set out in Table 10 of this Remuneration Report.

### 3.2 Structure

The executive remuneration framework is structured as a combination of fixed and variable remuneration, as follows:

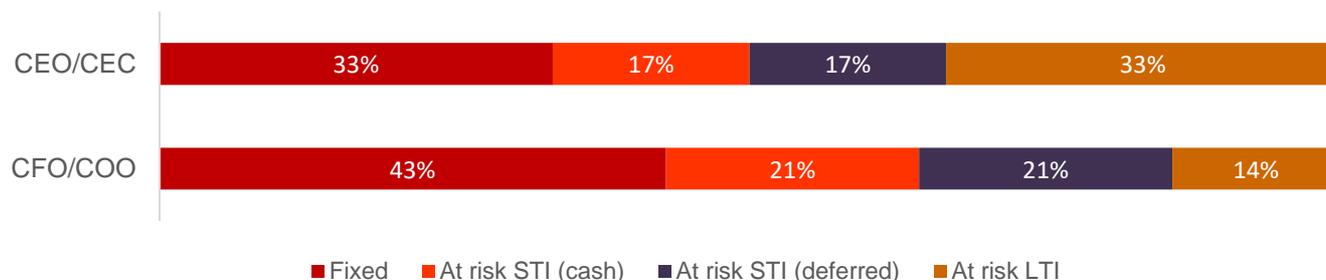
**TABLE 2: Executive remuneration structure**

	Current
<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>Fixed Annual Remuneration (“FAR”), including cash salary, superannuation, and car benefit in some circumstances; and</li> <li>Other benefits (see Section 3.4)</li> </ul>
<b>Variable remuneration</b> (‘at risk’)	<ul style="list-style-type: none"> <li>Short-term Incentive Plan (“STI” / “STIP”) (see Section 3.5.1); and</li> <li>Long-term Incentive Plan (“LTI” / “LTIP”) (see Section 3.5.2).</li> </ul>

### 3.3 Remuneration mix at target remuneration

The chart below illustrates the relative proportion of remuneration for Executive KMP that is fixed and that which is linked to individual and/or Company performance (STIP and LTIP) in the event that target performance for at-risk components is met.

**TABLE 3: Components of Target Remuneration for Executive KMP for 2019**



A description of each of the remuneration components – fixed remuneration, STIP and LTIP – is provided in sections 3.4 and 3.5 of this Remuneration Report.

### 3.4 Fixed Remuneration

Executives receive a fixed remuneration package, which incorporates cash salary, superannuation benefits and may include a provision for a car benefit, together with various other benefits. Executives have some scope to determine the combination of cash and various non-monetary benefits by which their FAR is delivered. Relocation and expatriate benefits are not included in fixed remuneration and are reported as non-monetary benefits in the Statutory Remuneration declaration in Table 10 of this Remuneration Report.

Executive fixed remuneration is reviewed annually to provide a base level of remuneration which is appropriate to the scope and accountabilities of each executive’s position and competitive with equivalent roles among companies of similar size in the mining/resources industry. No Executives are guaranteed an annual increase in FAR. In 2019 the Nomination and Remuneration Committee elected to increase fixed remuneration for Executive KMPs by up to 3%.

### 3.5 Variable remuneration

Variable remuneration is delivered through participation in the STIP (as outlined in section 3.5.1 of this Remuneration Report) whilst certain executives are also eligible to participate in an LTIP (as outlined in section 3.5.2 of this Remuneration Report).

#### 3.5.1 Short Term Incentive Plan

The STIP aims to strengthen shareholder alignment and encapsulates various company performance measures. The Board maintains discretion to alter the scorecard outcomes outlined below if the scorecard results generate any unintended outcomes from a reward perspective considering the perspectives of various stakeholders including but not limited to shareholders, employees and communities.

*Eligibility*

Executives as well as other management and employees of the Company are eligible to participate in the STIP.

*Objective*

The objective of the STIP is to reward Executives and employees for the achievement of Company, Business Unit, and individual goals that are aligned to the Company's financial, operational and strategic priorities.

*Structure*

For 2019 the Executives' STIP comprised two key components:

1. **STIP Opportunity** – this is expressed as a percentage of each Executive's FAR. The STIP opportunity is reviewed annually. The CEO, CEC, CFO and COO have a Target STIP opportunity of 100% of FAR, with a maximum opportunity of 200% of FAR. The Board believes this level of STIP opportunity is reasonable and competitive for the current environment.
2. **STIP Scorecard** – this consists of several Key Performance Indicators ("KPIs").

At the start of each year, the Board reviews and selects KPIs which it considers to be the most appropriate to the business. Assessment against these measures is determined following the end of each year.

For Executives, all KPIs are measured at Company level. The STIP scorecard measures the Company's performance in respect of the following categories:

**TABLE 4: Components of Target Remuneration for Executives for 2019**

<b>KPI</b>	<b>Measure</b>	<b>Weighting</b>
<b>Profitability</b>	Profit Before Tax ("PBT")	30%
	Free On Board ("FOB") Cash Costs (excluding royalties)	20%
	Run Of Mine tonnes ("ROM")	10%
<b>Health &amp; Safety</b>	Total Recordable Injury Frequency Rate ("TRIFR")	10%
	Critical Controls Compliance	5%
<b>Strategic Objectives</b>	Strategic measures may include special projects, capital management, growth and culture development.	15%
<b>Environment</b>	Environmental incidents and complaints	10%

For 2019, profit before income tax ("PBT") was deemed a more appropriate measure than net profit after tax ("NPAT"), which was included in the prior year.

STIP scorecard performance is assessed by the Chairman of the Executive Committee and the CEO, reviewed by the Nomination and Remuneration Committee, and approved by the Board.

Performance against the STIP scorecard is converted to a payout multiplier (calculated referencing the relevant maximum level of opportunity and minimum acceptable or threshold level of performance). The payout multiplier (0% to 200%) is applied to the Target STIP opportunity to determine the actual STIP award. Accordingly, each Executive's STIP award is heavily influenced by the achievement of Company KPIs.

*Timing*

Executive STIP awards are paid as follows:

- 50% of the award is delivered as a cash payment around March each year.
- 50% of the award will vest in equal parts over a two-year period (25% deferred for one year, remaining 25% deferred for two years) subject to continued employment at the respective vesting dates. The value of the deferred portion of STIP is converted to Deferred Rights (to Yancoal shares) at the time of award using a VWAP determined by the Board. At vesting, the Deferred Rights will be settled in equity or the cash equivalent value.

**3.5.2 Long Term Incentive Plan**

LTIP grants are delivered in performance share rights with vesting subject to performance metrics measured over a 3-year period. No structural changes were proposed for 2019. Key characteristics of the LTIP are outlined in Table 5.

**TABLE 5: LTIP 2019 Structure**

Eligibility	Executives and certain senior management are eligible to participate in the LTIP.
Objective	The objective of the LTIP is to reward and retain participants who are in positions to influence the Company's long-term performance.
Frequency	Each year, eligible Executives and certain senior management are considered for an annual LTIP grant.
LTIP opportunity	The Chairman of the Executive Committee and the Chief Executive Officer have an annual LTIP opportunity of up to 200% of FAR. The Chief Financial Officer and Chief Operations Officer have an LTIP opportunity of up to 50% of FAR.
Allocation Methodology	The number of performance rights granted is calculated by dividing the dollar value of the annual LTIP opportunity by the volume weighted average price of the Company's ordinary shares traded on the ASX across a 90-day trading period spread 60 days prior to, and 30 days after, 31 December 2018. The VWAP period was extended from the usual 20 day VWAP used for LTIP allocation, to acknowledge the impact on the YAL share of capital transactions in the last quarter of FY2018.
LTIP instrument	The LTIP is issued via a grant of performance share rights for nil consideration. The Company may at its discretion settle an Executive's and certain senior management's LTIP in cash or shares.
LTIP performance conditions	The LTIP will vest subject to both service and performance measures: <ul style="list-style-type: none"> <li>• Earnings Per Share ("EPS") Vesting Condition ("EPS Awards"): 60% of the award will vest subject to EPS growth performance of the Company relative to performance of a comparator group of companies operating in the Australian resources sector over the relevant performance period; and</li> <li>• Costs Target Vesting Condition ("Costs Target Awards"): 40% of the award will vest subject to cost per tonne performance of the Company relative to performance of a comparator group of Australian export mines at the end of the performance period.</li> </ul>
LTIP performance conditions – why were they chosen?	An EPS vesting condition was chosen because: <ol style="list-style-type: none"> <li>a) It allows for an objective external assessment of the shareholder value created by the Company relative to a group of peers over a sustained period in view of the low liquidity and limited float of Yancoal shares; and</li> <li>b) It is a widely adopted metric that is well understood by markets.</li> </ol> <p>The Costs Target Vesting Condition was chosen because it provides a structural incentive to LTI participants to ensure that the Company remains positioned in the best cost quartile of Australian coal producers. The best quartile costs protects and preserves shareholder value in difficult times and supports enhanced returns when the commodity cycle recovers.</p>
How will the performance condition be calculated for the EPS Awards?	For the EPS Awards, the EPS growth of the Company (based on the Company's annual report, adjusted for any share consolidations or splits) is measured as a percentile ranking compared to the EPS growth for the same period of the comparator group of companies operating in the Australian resources sectors. Vesting is based on the ranking in accordance with the following schedule: <ul style="list-style-type: none"> <li>• At the 75th percentile or above – 100% of the EPS Awards vest;</li> <li>• Between the 50th and 75th percentiles – vesting will occur on a pro rata straight line basis;</li> <li>• At 50th percentile – 50% of the EPS Awards vest; and</li> <li>• Below the 50th percentile – no EPS Awards vest.</li> </ul> <p>The 2019 comparator group consists of the following companies: Whitehaven Coal; BHP Billiton; Rio Tinto; Newcrest Mining; South32; Fortescue Metals Group; Iluka Resources; New Hope Corp; Northern Star Resources; OZ Minerals; Evolution Mining; Mineral Resources; St Barbara and Regis Resources.</p>
How will the performance condition be calculated for the Costs Target Awards?	For the Costs Target Awards, the Company's weighted average FOB cost per tonne is measured as a percentile ranking compared to the estimated coal industry cost curve (as advised by an independent expert) for Australian export mines at the end of the performance period. Vesting is based on the ranking in accordance with the following schedule: <ul style="list-style-type: none"> <li>• At the 20<sup>th</sup> percentile or below – 100% of the Costs Target Awards vest;</li> <li>• Between the 30<sup>th</sup> and 20<sup>th</sup> percentiles – vesting will occur on a pro rata straight line basis;</li> <li>• At the 30<sup>th</sup> percentile – 50% of the Costs Target Awards vest; and</li> <li>• Above the 30<sup>th</sup> percentile – no Costs Target Awards vest.</li> </ul>
Performance Period	<ul style="list-style-type: none"> <li>• Subject to achieving vesting conditions, EPS awards can become exercisable after a three-year performance period with the performance period commencing on 1 January 2019.</li> <li>• The Costs Target Awards is based on the FOB cost per saleable tonne achieved by Yancoal Australia Limited and the assets managed on behalf of Yancoal International Holdings for the year ending 31 December 2021 with Costs Target Awards being tested at, or shortly after, the time of publication of the independent expert's report.</li> <li>• All awards that do not vest following testing will lapse immediately. There is no re-testing. All vested awards are automatically exercised.</li> </ul>

### 3.6 Linking Executive remuneration to Company performance

The Company's remuneration principles include rewarding based on performance and this is primarily achieved through the Company's STIP and LTIP. Cash and equity awards under these plans are significantly impacted by the overall performance of the Company in order to maintain a link between performance and shareholder value. See Section 3.5 for further detail. The Company's earnings and delivery of shareholder wealth for the past four years is outlined in the table below.

#### 3.6.1 Overview of Yancoal's performance

TABLE 6: Yancoal's 5 year financial performance

	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
PBT (\$'M)	767	1,172	311	(312)	(354)
Basic EPS (\$) <sup>A</sup>	0.54	0.95	0.52	(0.23)	(0.29)
Closing share price (\$) <sup>A</sup>	2.90	3.92	4.38	10.56	2.15
Ordinary dividend per share (\$) <sup>A</sup>	0.39	0.10	-	-	-

<sup>A</sup> Yancoal's share capital was consolidated on a 35-1 basis on 28 September 2018. Restated figures are shown for Closing share price and Ordinary dividend per share.

#### 3.6.2 2019 Executive STIP outcomes

The table below outlines STIP scorecard achievement and the resulting STI outcomes across KPIs for 2019.

TABLE 7: Company Performance against 2019 Executive STIP Scorecard

KPI	Measure	Actual KPI Result	STI Outcome
<b>Profitability</b>	PBT	761	Between Target and Stretch
	FOB Cash Costs (excluding royalties) (\$ per tonne)	60.8	Stretch
	ROM (Mt)	53.0	Stretch
<b>Health &amp; Safety</b>	TRIFR	7.6	Between Target and Stretch
	Critical Controls Compliance	94%	Between Target and Stretch
<b>Strategic Objectives</b>	Strategic measures may include special projects, capital management, growth and culture development.	9.6	Varies Across Objectives
<b>Environment</b>	Environmental incidents and complaints	15.3	Stretch

The assessed outcomes and average achievement for Yancoal and Yancoal International Holdings Limited of 169% reflects the following achievements in 2019:

1. The delivery of profit before tax of \$761 million for the Group and the assets managed on behalf of Yancoal International Holdings Limited;
2. Attributable saleable coal production increased by 8% on the prior year, a record total of 53 million tonnes; and
3. Continued focus on a robust and sustainable cost management approach.

Details of amounts paid to executives are outlined in Table 8 of this Remuneration Report.

TABLE 8: 2019 Executive STIP Outcomes

Name	STIP Cash \$ <sup>A</sup>	STIP Deferred \$ <sup>B</sup>	STIP Total \$	% of STIP Opportunity Awarded	% of STIP Opportunity Not Awarded
Reinhold Schmidt	-	-	-	0%	100%
Lei Zhang	-	-	-	0%	100%
Fucun Wang	-	-	-	0%	100%
Paul Stringer	440,885	440,885	881,770	59%	41%
<b>Total</b>	<b>440,885</b>	<b>440,885</b>	<b>881,770</b>	<b>13%</b>	<b>87%</b>

<sup>A</sup> The 2019 STIP cash figures are to be paid around March 2020.

<sup>B</sup> The "STIP Deferred" is the value of the deferred portion of the STIP awarded for the year.

The STIP Deferred value shown in the table above is converted to Deferred Rights at the time of award, using the VWAP established by the Board. The STIP Deferred Rights will vest in equal parts over a two-year period (25% of total STIP award deferred for one year, remaining 25% of total STIP award deferred for two years). Given the low float of the Company's shares, it is anticipated that, at the time of vesting, the Board may exercise discretion to settle the 2019 STIP Deferred Rights with a cash equivalent payment.

Details of the remuneration of Executives prepared in accordance with statutory obligations and accounting standards are contained in Table 10 of this Remuneration Report. The deferred STIP expense has been accounted for as being expected to be settled in cash in accordance with Australian Accounting Standards.

### 3.6.3 LTIP awards granted to Executives in 2019

A summary of the LTIP awards granted in 2019 is set out in the table below.

TABLE 9: Details of the LTIP applicable to Executives

Name	Fair value at date of grant \$ <sup>A</sup>	Number of Performance Rights granted
Reinhold Schmidt	2,619,644	985,754
Lei Zhang	186,740	70,269
Fucun Wang	792,866	298,350
Paul Stringer	286,128	107,668
<b>Total</b>	<b>3,885,378</b>	<b>1,462,041</b>

<sup>A</sup> The performance share rights noted above have been allocated and were issued on 28 June 2019. The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 90-day trading period spread 60 days prior to, and 30 days after, 31 December 2018; adjusted for estimated dividends forgone during the performance period.

### 3.7 Looking forward to 2020

Following a substantial review in 2018 to align remuneration with ASX and HKEx practices, the remuneration structure and incentive opportunity will remain unchanged in 2020 apart from increases to fixed remuneration in accordance with standard market practice. The performance criteria for the 2020 LTIP awards and the VWAP for allocations will be reviewed for continued appropriateness prior to the 2020 awards being granted.

#### 4. Remuneration table

##### 4.1 Executives Remuneration

Table 10 sets out the details of remuneration earned by Executives, calculated in accordance with Australian Accounting Standards

TABLE 10: Statutory Remuneration of Executives in 2018 and 2019

Name	Year	Short-term benefits \$			Post-employment benefits \$	Long-term benefits \$		Share-based payments \$	Total \$	% performance related
		Cash Salary	STI <sup>A</sup>	Non- monetary benefits	Superannuation benefits	Long Service Leave	STI Deferred <sup>A</sup>	LTI		
Reinhold Schmidt	2019	1,629,226	-	70,864	20,767	172,602	-	1,451,019	3,344,478	43%
	2018	1,602,234	695,388	109,585	22,766	140,696	695,388	631,915	3,897,972	52%
Lei Zhang	2019	457,015	-	15,176	20,767	43,554	-	103,435	639,947	16%
	2018	449,951	118,970	5,644	20,290	34,729	118,970	45,045	793,599	36%
Baocai Zhang <sup>B</sup>	2019	-	-	-	-	-	-	-	-	-
	2018	150,573	356,707	2,613	10,024	-	-	-	519,917	69%
Fucun Wang <sup>C</sup>	2019	478,860	-	6,042	20,767	1,260	-	432,064	938,993	46%
	2018	162,720	211,334	-	10,266	137	211,334	185,915	781,706	78%
Paul Stringer <sup>D</sup>	2019	700,350	440,885	167,873	20,767	27,000	440,885	155,888	1,953,648	53%
	2018	370,544	590,433	77,278	11,949	8,764	590,433	67,067	1,716,468	73%
Total	2019	3,265,451	440,885	259,955	83,068	244,416	440,885	2,142,406	6,877,066	44%
	2018	2,736,022	1,972,832	195,120	75,295	184,326	1,616,125	929,942	7,709,662	59%

<sup>A</sup> Following preparation of the 2018 remuneration report, the 2018 STIP outcomes for Executive KMP were reduced by less than 1%. The 2018 figures for STI have been restated in the table above and in Table 15.

<sup>B</sup> Baocai Zhang was an Executive director until 8 June 2018.

<sup>C</sup> Fucun Wang was an Executive director from 26 June 2018.

<sup>D</sup> Paul Stringer was considered a KMP from 29 May 2018.

Particulars regarding the Directors', senior management's and Executive KMPs' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 of the HK Listing Rules are set out in note B4 to the financial statements.

During the financial year ended 31 December 2019, no emoluments were paid by the Group to any of the Directors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office as a director of any member of the Group or in connection with the management of the affairs of any members of the Group.

## 5. Service Agreements

For Non-Executive Directors, the terms and conditions of their appointment are outlined in a letter of appointment. For Executives, the terms and conditions of their employment are outlined in their Executive Service Agreement (“ESA”) with the Company.

Updates to the ESAs have been put in place for those executives who received an employment cost adjustment in 2019 to recognise achievement of performance and development goals. All other terms and conditions outlined in the ESA remain effective.

**TABLE 11: Certain ESA terms for each of the Executives**

Executive	Position	Term of ESA	Notice Period	Termination Benefit
<b>Reinhold Schmidt</b>	Chief Executive Officer	Unlimited	6 months <sup>A</sup> 12 months <sup>B</sup>	<ul style="list-style-type: none"> <li>• Nil for cause or resignation.</li> <li>• If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.</li> </ul>
<b>Lei Zhang</b>	Chief Financial Officer	Unlimited	3 months <sup>A</sup> 6 months <sup>B</sup>	<ul style="list-style-type: none"> <li>• Nil for cause or resignation.</li> <li>• If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.</li> </ul>
<b>Fucun Wang</b>	Executive Director, Co-Vice Chairman, Chairman of the Executive Committee	Unlimited	6 months <sup>A</sup> 12 months <sup>B</sup>	<ul style="list-style-type: none"> <li>• Nil for cause or resignation.</li> <li>• If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.</li> </ul>
<b>Paul Stringer</b>	Chief Operating Officer	Unlimited	3 months <sup>A</sup> 6 months <sup>B</sup>	<ul style="list-style-type: none"> <li>• Nil for cause or resignation.</li> <li>• If ceasing employment for any other reason i.e. as a ‘Good Leaver’, a pro-rata payment in accordance with STIP or LTIP plan rules is at the Board discretion.</li> </ul>

<sup>A</sup> Notice period applicable if the Executive resigns.

<sup>B</sup> Notice period applicable if the Company terminates the Executive.

## 6. Non-Executive Director fees

### *Objective*

The Board seeks to set remuneration for Non-Executive Directors at a level which:

- provides the Company with the ability to attract and retain directors of the highest calibre;
- reflects the responsibilities and demands made on Non-Executive Directors; and
- is reasonable and acceptable to the Company’s shareholders.

### *Structure*

The remuneration structure for the Non-Executive Directors is distinct from the remuneration structure for Executives in line with sound corporate governance.

The Company set an aggregate remuneration cap of \$3,500,000 per annum for all Non-Executive Directors. Consistent with the Constitution, remuneration payable to each Non-Executive Director has been approved by the Company's majority shareholder, Yanzhou.

The total Board and Committee fees paid by the Company to Non-Executive Directors in 2019 was \$956,160.

During 2019, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the maximum superannuation guarantee cap). A change was made to the Board and Board Committee fees from 2018 to 2019 with fees being adjusted to be sufficient to attract and retain high quality directors. Fees for directors were last reviewed in 2012. No equity instruments were issued to Non-Executive Directors over 2019 as part of their remuneration package. No element of the Non-Executive Director fees is linked to performance.

Neither Board nor Board Committee fees were paid to:

- Executive Director Fucun Wang as the responsibilities of Board Committee membership are considered in determining the remuneration provided as part of their normal employment conditions.
- Nominee Directors of Yanzhou as the responsibilities of Board or Board Committee membership were considered part of their role and remuneration arrangements with Yanzhou. The Directors of Yanzhou and China Cinda (HK) Holdings Company Limited Group ("Cinda") were as follows:
  - Cunliang Lai
  - Xiang Qian Wu
  - Fuqi Wang
  - Baocai Zhang
  - Fucun Wang
  - Qingchun Zhao
  - Xing Feng

**TABLE 12: Board and Board Committee fees**

	2019 \$
<b>Board Fees per annum (including any superannuation)</b>	
Chairman of the Board	Not applicable
Independent Co-Vice Chairman of the Board (inclusive of Committee fees)	360,000
Director	165,000 <sup>A</sup>
<b>Committee Fees per annum (including any superannuation)</b>	
Audit and Risk Management Committee – Chair	Not applicable
Audit and Risk Management Committee – Member	20,000
Health, Safety, Environment and Community Committee – Chair	40,000
Health, Safety, Environment and Community – Member	20,000
Nomination and Remuneration Committee – Chair	40,000
Nomination and Remuneration Committee – Member	20,000
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – Member	20,000

<sup>A</sup> Other than as noted in Table 13: Details of Non-Executive Directors Remuneration

Table 13 sets out the details of remuneration (in the form of Board and Committee fees and other benefits) earned by Non-Executive Directors, that were eligible for compensation, calculated in accordance with Australian Accounting Standards.

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2018 and 2019

Name	Year	Short Term Benefits \$			Post-Employment Benefits \$		Total \$
		Fees <sup>A</sup>	STI or Bonus	Non-Monetary Benefits	Superannuation	Long Service Leave	
Gregory James Fletcher	2019	339,233	-	-	20,767	-	360,000
	2018	398,074	-	-	19,200	-	417,274
Geoffrey William Raby	2019	187,215	-	-	17,785	-	205,000
	2018	176,500	-	-	15,913	-	192,413
David James Moulton	2019	224,233	-	-	20,767	-	245,000
	2018	191,972	-	-	18,237	-	210,209
Helen Jane Gillies	2019	205,479	-	-	19,521	-	225,000
	2018	198,494	-	-	18,857	-	217,351
Huaqiao Zhang <sup>B</sup>	2019	-	-	-	-	-	-
	2018	7,296	-	-	725	-	8,021
Vincent O'Rourke <sup>C</sup>	2019	-	-	-	-	-	-
	2018	13,163	-	-	1,307	-	14,470
Total	2019	956,160	-	-	78,840	-	1,035,000
	2018	985,499	-	-	74,239	-	1,059,738

<sup>A</sup> Includes following transaction specific remuneration paid:

- Gregory James Fletcher – 2018: \$112,500.
- Geoffrey William Raby – 2018: \$11,740.
- David James Moulton – 2018: \$24,658.
- Helen Jane Gillies – 2018: \$43,836.

<sup>B</sup> Huaqiao Zhang – resigned on 30 January 2018

<sup>C</sup> Vincent O'Rourke – resigned on 30 January 2018

## 7. Share Trading Policy and Insider Trading Policy

The Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by KMP and other relevant employees, as well as their closely related persons, during specified blackout periods each year and when they are in possession of 'inside information'. Directors, KMP and their closely related persons are also prohibited from dealing in securities of a listed company where he or she is in possession of inside information in relation to those securities. Subject to compliance with the Company's Share Trading Policy and Insider Trading Policy, employees are permitted to deal in Company securities or Yanzhou securities outside these blackout periods where they are not in possession of inside information, however additional approval requirements apply to Directors.

The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions from dealing under such plans. There are also restrictions regarding margin lending arrangements, hedging and short-term trading of the Company's securities. Each Director and KMP is required to provide a declaration at the end of each financial year certifying that they (and their closely related persons) have complied with the Share Trading Policy and the Insider Trading Policy for the duration of that financial year.

## 8. Equity instrument disclosures

The numbers of shares in the Company held during the financial year by each director of the Company and other Executive KMPs of the Group, including their personally related parties, are set out below.

TABLE 14: Movement in Shares held by KMP in 2019

Name	Held at 1 January 2019	Granted as compensation	Purchased	Held at 31 December 2019
Gregory Fletcher	2,100	-	-	2,100
Reinhold Schmidt	312,278	-	-	312,278
Baocai Zhang	274,404	-	-	274,404
Geoffrey Raby	22,858	-	-	22,858
Lei Zhang	68,894	-	-	68,894
Ying Zhang <sup>A</sup>	28,233	-	-	28,233
Paul Stringer	56,131	-	-	56,131

<sup>A</sup> Mrs Ying Zhang is a related party of Mr Lei Zhang.

No other KMP held any shares in respect of Yancoal or its related entities at or during the year ended 31 December 2019.

TABLE 15: Movement in Other Equity Instruments held by Executives in 2019

The number of performance rights held by Executives in 2019 is outlined in the table below.

Name	Instrument	Held at 1 January 2019	Granted as compensation	Vested during the year	Exercised during year	Lapsed/cancelled during year <sup>C</sup>	Held at 31 December 2019	Of which exercisable	Of which not vested & not exercisable
Reinhold Schmidt	LTIP <sup>A</sup>	668,693	985,754	-	-	-	1,654,447	-	1,654,447
	STIP Deferral <sup>B</sup>	207,720	-	-	-	(207,720)	-	-	-
Lei Zhang	LTIP <sup>A</sup>	47,667	70,269	-	-	-	117,936	-	117,936
	STIP Deferral <sup>B</sup>	35,538	-	-	-	(35,538)	-	-	-
Fucun Wang	LTIP <sup>A</sup>	196,735	298,350	-	-	-	495,085	-	495,085
	STIP Deferral <sup>B</sup>	63,128	-	-	-	(63,128)	-	-	-
Paul Stringer	LTIP <sup>A</sup>	70,970	107,668	-	-	-	178,638	-	178,638
	STIP Deferral <sup>B</sup>	176,370	-	-	-	(176,370)	-	-	-

<sup>A</sup> Relating to the 2018 and 2019 LTIP awards:

- 2019 LTIP: The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 90-day trading period spread 60 days prior to, and 30 days after, 31 December 2018.
- 2018 LTIP: The number of performance rights granted is calculated as the maximum LTIP award opportunity divided by the VWAP across a 20- day trading period spread evenly either side of 31 December 2017. The number of performance share rights was adjusted due to the 35:1 share consolidation undertaken by the Company in September 2018.

<sup>B</sup> Relating to the deferred portions of the 2018 and 2019 STIP.

- 2018 STIP Deferral: The first portion of the 2018 deferred STIP is due to vest in March 2020. Given the low float of YAL shares, discretion has been exercised to settle this portion of the award in cash.
- 2019 STIP Deferral: The 2019 deferred STIP has been accounted for as being expected to be settled in cash in accordance with Australian Accounting Standards.

<sup>C</sup> Under Australian Accounting Standards, these performance rights have been accounted for as being cancelled due to the expectation that these are now to be settled in cash rather than in equity.

## 9. Other transactions with and loans to Directors and Executives

A number of Directors and executives hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Some of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of any transactions with management, Directors or parties related to Executives or Directors were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-management or Director related persons or entities on an arm's length basis (refer to Note E3). There were no loans provided to Directors and Executives during the year.

## Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which any of the Company's subsidiaries and fellow subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

## Insurance of officers or auditors

Rule 10.2 of Yancoal's Constitution requires Yancoal to indemnify, to the full extent permitted by law, each Officer of the Company against liability incurred by the Officer as a Director or an Officer of the Company. The Directors named in this report, along with the Company Secretary, Chief Executive Officer and Chief Financial Officer, have the benefit of this requirement, as do individuals who formerly held one of those positions.

During the financial year, the Company paid a premium for Directors' and Officers' Liability insurance as well as Defence Costs cover. The policies cover the Directors and other officers of the Group. The Directors have not included details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability insurance policy as such disclosure is prohibited under the terms of insurance contracts.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001 (Cth)*.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

During the year, the auditor's non-audit service to the Company was the preparation of the accountant's report in connection with Hong Kong listing.

The Board of Directors have considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001 (Cth)*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001 (Cth)* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

**TABLE 16: Auditor's Fees in 2019**

ShineWing Australia	2019 \$	2018 \$
Audit and review of financial statements	1,378,700	1,808,000
Non-audit services:		
Other assurance services	12,800	982,000
Taxation compliance	50,000	84,000
<b>Total services remuneration of ShineWing Australia</b>	<b>1,441,500</b>	<b>2,874,000</b>

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 (*Cth*) is set out on page 38.

**Rounding of amounts**

The Group is of a kind referred to in Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in this Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off to the nearest million dollars in accordance with that legislative instrument.

This report is made in accordance with a resolution of the Directors.



Gregory James Fletcher  
Director  
Sydney

28 February 2020

**Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the directors of Yancoal Australia Ltd**

I declare that to the best of my knowledge and belief, during the year ended 31 December 2019 there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

*ShineWing Australia*

**ShineWing Australia**  
Chartered Accountants

*R Blayney Morgan*

R Blayney Morgan  
Partner  
Sydney, 28 February 2020

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## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

Yancoal operates a diversified portfolio of world class assets consisting of both large scale open cut and underground mines comprising five coal mine complexes in Australia.

As a leading low cost coal producer in the global seaborne market, Yancoal's coal mining operations produce a mix of premium thermal, semi-soft coking, and pulverised coal injection ("PCI") coals, together with mid-to-high ash thermal coals. The Group's financial results are largely dependent on the demand for thermal and metallurgical coal, which in turn depends on macroeconomic trends, including regional and global economic activity, and the price and availability of alternative forms of energy production.

Our customers are located throughout the Asia-Pacific region with Japan, Singapore, China, South Korea and Taiwan accounting for approximately 78% of our revenue from coal sales in the year ended 31 December 2019.

Thermal coal is primarily used in electricity generation and its end users are typically power and utilities companies. Metallurgical coal is primarily used to produce coke for blast furnace steel production and its end users are typically steel plants. We also sell coal to customers in the commodities trading business, who purchase the Group's coal for trading purposes or to on-sell to their end customers. Commodity traders are similarly exposed to regional and global demand trends in the coal market.

The Group's export thermal coal is generally priced on either an index price, an annual fixed price or on a spot price basis. Generally, lower ash products are priced relative to the GlobalCOAL Newcastle index and higher ash products are priced relative to the Argus/McCloskey API5 index. Annual fixed price contracts are mostly priced against the Japanese Power Utility ("JPU") Reference Price, which is the contract price agreed between major Australian Suppliers and Japanese Power Utilities. The balance of our sales are priced on a fixed spot price negotiated at the time of settlement that also reflect the term of the arrangement.

The Group's export metallurgical coal is either priced on a benchmark or spot price basis. Most term contracts are priced against a benchmark pricing mechanism which is negotiated on a quarterly price basis between major Australian suppliers and Japanese steel mills. Spot sales are priced relative to the market at the time and are mostly done on a fixed price basis. The large majority of the Group's semi-soft coking coal out of Newcastle and low volatile PCI coal out of Queensland is priced relative to the quarterly benchmark.

During the year ended 31 December 2019 ("Period"), the demand profile for thermal coal in the Asia-Pacific region softened as a result of several factors and supply options strengthened. As a consequence of evolving market conditions, index coal prices moved lower and the premium for high-grade thermal coal relative to lower grade indices narrowed. In the latter half of the Period strong supply of metallurgical coal saw prices reduce.

Yancoal actively considers the effect that its supply level can have on specific coal markets and responds appropriately to prevailing market conditions. To counter the anticipated short term volatility in thermal coal price indices, we continue to optimise the product quality and volume we place into the market.

Australia is expected to retain a market share of around 26% of the growing world seaborne thermal coal requirement and to play a critical role as a primary source of premium grade coals. Ongoing challenges associated with obtaining development approvals for greenfield projects has the potential to support premium coal prices and domestic exporters with brownfield expansion opportunities, such as Yancoal, should benefit from such conditions.

The Group's coal sales revenue is typically recognised on a Free on Board ("FOB") basis when coal is loaded at the load port in Australia.

The Group's overall average ex-mine selling price of coal decreased by 16% from \$132 per tonne in 2018 to \$111 per tonne in 2019, mainly as a result of (i) a decrease in global US\$ coal prices and (ii) a higher proportion of thermal coal sales being Moolarben's higher ash product partially offset by the Australian dollar weakening against the US dollar from an average of 0.7479 in 2018 to 0.6952 in 2019. The Group's average selling price of thermal coal decreased from \$123 per tonne to \$100 per tonne and the average selling price of metallurgical coal decreased from \$182 per tonne to \$167 per tonne.

The Group's overall average cash operating costs per ex-mines sales tonne, excluding government royalties, decreased from \$63 per tonne in 2018 to \$61 per tonne in 2019.

The table below sets out the Run of Mine ("ROM") and saleable production for each Yancoal owned mine on a 100% basis during the Group's period of ownership.

	Ownership % (1)	Year ended 31 December		Change %
		2019 Mt	2018 Mt	
<b>ROM production</b>				
Moolarben	85	20.5	18.6	10%
MTW	82.9	17.6	17.6	-%
HVO	51	19.2	19.0	1%
Yarrabee	100	3.4	3.5	(3%)
Stratford Duralie	100	1.2	0.7	71%
Middlemount	~50	3.4	4.8	(29%)
Watagan	100	3.7	2.4	54%
<b>Total – 100% basis</b>		<b>69.0</b>	<b>66.6</b>	<b>4%</b>
<b>Saleable production</b>				
Moolarben	85	17.8	16.5	8%
MTW	82.9	12.1	12.1	-%
HVO	51	13.7	13.3	3%
Yarrabee	100	2.8	2.6	8%
Stratford Duralie	100	0.8	0.5	60%
Middlemount	~50	2.7	3.8	(29%)
Watagan	100	2.2	1.2	83%
<b>Total – 100% basis</b>		<b>52.1</b>	<b>50.0</b>	<b>4%</b>

(1) Ownership percentage stated as at 31 December 2019

ROM coal production was up 4% from 66.6Mt in 2018 to 69.0Mt in 2019. This included an increase in the three tier-one assets (being Moolarben, MTW and HVO) of 4% from 55.2Mt in 2018 to 57.3Mt in 2019.

Saleable coal production was up 4% from 50.0Mt in 2018 to 52.1Mt in 2019. This included an increase in the three tier-one assets of 4% from 41.9Mt in 2018 to 43.6Mt in 2019.

Moolarben's ROM production increased by 1.9Mt (10%) and its saleable production increased by 1.3Mt (8%) with 1.1Mt of the increase in ROM attributable to the open cut and 0.8Mt attributable to the underground. The smaller increase in saleable production was primarily attributable to a reduced proportion of bypass coal.

MTW's ROM and saleable production was flat across the two reporting periods.

HVO's ROM production increased by 0.2Mt (1%) whilst its saleable production increased by 0.4Mt (3%). The larger increase in saleable production was primarily attributable to 1.5Mt of bypass coal.

The below table sets out the Group's ongoing economic interest in the saleable production for each Yancoal owned mine that contributes to the financial results of the Group. i.e. excludes Watagan.

	Ownership % (1)	Year ended 31 December		Change %
		2019 Mt (2)	2018 Mt (2)	
<b>Saleable production</b>				
Moolarben	85	15.2	13.3	14%
MTW	82.9	9.9	9.7	2%
HVO	51	6.9	6.8	1%
Yarrabee	100	2.8	2.6	8%
Stratford Duralie	100	0.8	0.5	60%
		<b>35.6</b>	<b>32.9</b>	<b>8%</b>
Middlemount (equity-accounted)	~50	1.3	1.9	(32%)
<b>Total – equity basis</b>		<b>36.9</b>	<b>34.8</b>	<b>6%</b>
Thermal		30.2	27.3	11%
Metallurgical		6.7	7.5	(11%)
		<b>36.9</b>	<b>34.8</b>	<b>6%</b>

(1) Ownership percentage stated as at 31 December 2019

(2) Includes saleable production of (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter (ii) 51% of the unincorporated HVO joint venture representing the Group's ongoing economic interest (iii) 64.1% of the

unincorporated MTW joint venture up to and including 28 February 2018 and 82.9% thereafter (iv) 100% of Yarrabee and Stratford Duralie (v) ~50% of Middlemount although equity accounted.

The Group's saleable coal production, excluding Middlemount, was up 8% from 32.9Mt in 2018 to 35.6Mt in 2019 and including Middlemount was up 6% from 34.8Mt in 2018 to 36.9Mt in 2019. This included an increase in the three tier-one assets of Moolarben, MTW and HVO of 7% from 29.8Mt in 2018 to 32.0Mt in 2019.

The saleable production contribution of the Group's tier-one assets increased from 86% in 2018 to 87% in 2019.

Thermal coal saleable production increased by 11% from 27.3Mt in 2018 to 30.2Mt in 2019 and metallurgical coal saleable production decreased by 11% from 7.5Mt in 2018 to 6.7Mt in 2019. Thermal coal represented 82% of total saleable coal production in 2019 a small increase from 78% in 2018.

The key risks affecting the Group's operations and where applicable, the strategies and measures taken to manage these risks are detailed in the Corporate Governance Statement included in this report.

## FINANCIAL RESULTS REVIEW

### RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

For the management discussion and analysis, the Group's operating results for the year ended 31 December 2019 are compared with the operating results for the year ended 31 December 2018.

All financial numbers included below and in the commentary to follow are stated in Australian dollars (A\$ or \$) unless otherwise stated.

	Year ended 31 December						Change %
	IFRS Reported \$m	2019 Non-operating \$m	Operating \$m	IFRS Reported \$m	2018 Non-operating \$m	Operating \$m	
<b>Revenue</b>	<b>4,460</b>	<b>65</b>	<b>4,525</b>	<b>4,850</b>	<b>41</b>	<b>4,891</b>	<b>(15%)</b>
Other income	101	(93)	8	150	(82)	68	(712%)
Changes in inventories of finished goods and work in progress	39	-	39	31	-	31	26%
Raw materials and consumables	(707)	-	(707)	(669)	-	(669)	6%
Employee benefits	(525)	-	(525)	(518)	-	(518)	1%
Transportation	(562)	-	(562)	(537)	-	(537)	5%
Contractual services and plant hire	(388)	-	(388)	(418)	29	(389)	(-)%
Government royalties	(310)	-	(310)	(347)	-	(347)	(11%)
Coal purchases	(332)	-	(332)	(332)	-	(332)	-
Other operating expenses	(145)	56	(89)	(278)	204	(74)	20%
Share of profit of equity-accounted investees, net of tax	(24)	-	(24)	56	-	56	(143%)
<b>EBITDA</b>	<b>1,607</b>	<b>28</b>	<b>1,635</b>	<b>1,988</b>	<b>192</b>	<b>2,180</b>	<b>(25%)</b>
<b>EBITDA %</b>	<b>36</b>		<b>36</b>	<b>41</b>	<b>-</b>	<b>45</b>	
Depreciation and amortisation	(607)	-	(607)	(523)	-	(523)	16%
<b>EBIT</b>	<b>1,000</b>	<b>28</b>	<b>1,028</b>	<b>1,465</b>	<b>192</b>	<b>1,657</b>	<b>(38%)</b>
<b>EBIT %</b>	<b>22</b>		<b>23</b>	<b>30</b>	<b>-</b>	<b>34</b>	
Net finance costs	(233)	62 <sup>(1)</sup>	(171)	(293)	23 <sup>(1)</sup>	(270)	(37%)
Non-operating items	-	(90)	(90)	-	(215)	(215)	58%
<b>Profit before income tax</b>	<b>767</b>	<b>-</b>	<b>767</b>	<b>1,172</b>	<b>-</b>	<b>1,172</b>	<b>(35%)</b>
<b>Profit before income tax %</b>	<b>17</b>	<b>-</b>	<b>17</b>	<b>24</b>	<b>-</b>	<b>24</b>	
Income tax expense	(48)	(219)	(267)	(320)	-	(320)	17%
Income tax one-off	-	219	219	-	-	-	-
<b>Profit after income tax</b>	<b>719</b>	<b>-</b>	<b>719</b>	<b>852</b>	<b>-</b>	<b>852</b>	<b>(16%)</b>

	2019			2018			Change %
	IFRS Reported \$m	Non-operating \$m	Operating \$m	IFRS Reported \$m	Non-operating \$m	Operating \$m	
<b>Profit after income tax %</b>	<b>16</b>	<b>-</b>	<b>16</b>	<b>18</b>	<b>-</b>	<b>18</b>	
Attributable to:							
- Owners of Yancoal	<b>719</b>	<b>-</b>	<b>719</b>	<b>852</b>	<b>-</b>	<b>852</b>	<b>(16%)</b>
- Non-controlling interests	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) Includes the reclassification of interest income of \$125 million (2018: \$119 million) from Other income to Net finance costs and Bank fees and other charges of \$56 million (2018: \$96 million) from Other operating expenses to Net finance costs as these amounts are excluded from Operating EBITDA. Also, includes \$7 million of interest received on the arbitration award settled in 2020 which has been treated as non-operating (refer to Overview of non-operating items below)

To supplement the Group's consolidated financial statements, which are presented in accordance with International Financial Reporting Standards ("IFRSs") the Group also uses adjusted Operating EBITDA and Operating EBIT as additional financial measures, as set out in the table above, which are unaudited and not required by or presented in accordance with, IFRSs. These financial measures are presented because they are used by management to evaluate the Group's financial performance. These non-IFRSs measures provide additional information to investors and others in understanding and evaluating the consolidated results of operations in the same manner as they help management compare the financial results across accounting periods with those of our peer companies, by removing one-off or non-operating items.

As presented by the management, Operating EBITDA represents profit or loss before income tax for the year as adjusted for net finance costs, depreciation and amortisation and any significant non-operating items, while Operating EBIT represents profit or loss before income tax as adjusted for net finance costs and any significant non-operating items.

#### PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit after income tax decreased by 16% from \$852 million in 2018 to \$719 million in 2019 and was fully attributable to the owners of Yancoal with no non-controlling interests.

Profit attributable to the owners of Yancoal of \$719 million was impacted by a number of non-operating items during 2019. These totaled a net loss before tax impact of \$90 million comprising a \$190 million fair value loss recycled from the hedge reserve, a \$56 million favourable arbitration award including \$7 million of interest, a \$12 million contingent royalty revaluation gain and a \$32 million royalty revaluation gain. In addition, a one-off tax benefit of \$219 million was recognised relating to the finalisation of the tax base attributable to the Group on the acquisition of Coal & Allied on 1 September 2017 ("C&A Acquisition"). These are discussed in more detail separately below, refer "Overview of non-operating items", and have been excluded from the operating commentary.

#### OVERVIEW OF OPERATING RESULTS

The below comparison of the financial results for the years ended 31 December 2019 and 31 December 2018 is impacted by changes in the Group's portfolio of assets, most significantly the acquisition of a further 28.9% interest in the Warkworth joint venture effective from 1 March 2018; the disposal of a 16.6% interest in the HVO joint venture from 4 May 2018 and the acquisition of a further 4% interest in the Moolarben joint venture from 1 December 2018.

The analysis in this section includes ex-mine sales tonnes and ex-mine revenue comprising (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter (ii) 67.6% of the unincorporated HVO joint venture up to and including 3 May 2018 and 51% thereafter (iii) 64.1% of the unincorporated MTW joint venture up to and including 28 February 2018 and 82.9% thereafter (iv) 100% of Yarrabee and Stratford Duralie.

The result of HVO includes the 16.6% interest subsequently sold to Glencore Coal Pty Ltd ("Glencore") on 4 May 2018 as during the first four months of 2018 the Group included the operating results of the 16.6% in its income statement and balance sheet. The economic interest of the said 16.6% interest was effectively transferred to Glencore on 1 September 2017 however this was compensated through an agreed reduced settlement price mechanism.

The results of Middlemount and Watagan are excluded from the line by line commentary below because their results, as incorporated equity-accounted investments, are included in share of profits of equity-accounted investees, net of tax in the statement of profit and loss and is discussed separately below.

## REVENUE

	Year ended 31 December		Change %
	2019 \$m	2018 \$m	
Ex-mine coal sales <sup>(1)</sup>	3,932	4,416	(11%)
Sale of purchased coal	415	287	39%
Other	18	37	(5%)
<b>Sale of coal</b>	<b>4,365</b>	<b>4,740</b>	<b>(8%)</b>
Mining service fees	43	46	(7%)
Sea freight	83	66	26%
Other	34	39	13%
<b>Revenue</b>	<b>4,525</b>	<b>4,891</b>	<b>(7%)</b>

<sup>(1)</sup> Ex-mine coal sales include only coal that has been produced at one of the Group's mines. They exclude the sale of coal that has been purchased from third parties.

Total revenue decreased by 7% from \$4,891 million in 2018 to \$4,525 million in 2019, primarily due to an 8% decrease in coal sales revenue from \$4,740 million in 2018 to \$4,365 million in 2019. With respect to coal sales revenue, the key factors were:

	Year ended 31 December		Change %
	2019	2018	
<b>Thermal coal</b>			
Average selling price (A\$ per tonne)	100	123	(19%)
Sales volume (Mt)	30.1	28.4	6%
% of total ex-mine sales volume	85	85	-
Total ex-mine thermal coal revenue (A\$ million)	3,015	3,484	(13%)
<b>Metallurgical coal</b>			
Average selling price (A\$ per tonne)	167	182	(8%)
Sales volume (Mt)	5.5	5.1	8%
% of total ex-mine sales volume	15	15	-
Total ex-mine metallurgical coal revenue (A\$ million)	917	932	(2%)
<b>Total coal</b>			
Average selling price (A\$ per tonne)	111	132	(16%)
Total ex-mine sales volume (Mt)	35.6	33.5	6%
<b>Total ex-mine coal revenue (A\$ million)</b>	<b>3,932</b>	<b>4,416</b>	<b>(11%)</b>

A decrease in the Group's overall average ex-mine selling price of coal of 16% from \$132 per tonne in 2018 to \$111 per tonne in 2019 resulting from (i) a decrease in global US\$ coal prices with the weekly average GlobalCOAL Newcastle thermal coal index price falling by US\$30/t (28%) during the same period and the average semi-soft coking coal benchmark price falling by US\$18/t (13%) during the same period and (ii) a higher proportion of thermal coal sales being Moolarben's higher ash product partially offset by the Australian dollar weakening against the US dollar by 7% from an average of 0.7479 in 2018 to 0.6952 in 2019. Global US\$ thermal coal prices have fallen during the Period due to the demand profile for thermal coal in the Asia-Pacific region softening as a result of several factors and supply options strengthened. As a consequence of evolving market conditions, index coal prices moved lower and the premium for high-grade thermal coal relative to lower grade indices narrowed. In the latter half of the Period strong supply of metallurgical coal saw prices depreciate. The Group's average selling price of thermal coal decreased from \$123 per tonne to \$100 per tonne. The Group's average selling price of metallurgical coal decreased from \$182 per tonne to \$167 per tonne.

An increase in the Group's ex-mine sales volume of coal of 6% from 33.5Mt in 2018 to 35.6Mt in 2019, mainly due to a 1.6Mt increase in sales at Moolarben.

	Year ended 31 December			
	2019		2018	
	Amount	% of revenue	Amount	% of revenue
	\$'m	%	\$'m	%
Japan	1,139	26%	1,055	22%
China	683	16%	739	16%
South Korea	546	13%	664	14%
Taiwan	533	12%	518	11%
Singapore	465	11%	861	18%
Australia	453	10%	295	6%
Thailand	338	8%	343	7%
Others <sup>(1)</sup>	208	4%	265	6%
<b>Total revenue from external customers</b>	<b>4,365</b>	<b>100%</b>	<b>4,740</b>	<b>100%</b>

<sup>(1)</sup> Others includes Germany, Malaysia, Vietnam, India, Luxembourg and USA

Sales by customer location as a percentage of total coal sales revenue remained largely stable across 2018 and 2019 with several notable exceptions.

The increase in Japan was primarily due to targeted end user business in these typically premium priced markets increasing the volume of direct sales.

The decrease in Singapore was primarily due to a continued focus on developing end user business and reducing coal sales to traders, some of whom are located in Singapore.

The increase in Australia was primarily on higher sales to other local coal producers for their blending purposes, rather than local coal traders.

#### Other income

	Year ended 31 December		
	2019	2018	Change
	\$m	\$m	%
Net gain on foreign exchange	-	61	-
Sundry income	8	7	14%
<b>Other income</b>	<b>8</b>	<b>68</b>	<b>(88%)</b>

Other income decreased from \$68 million in 2018 to \$8 million in 2019. In 2018 this included a net gain on foreign exchange of \$61 million primarily recognised on holding US\$ cash balances as the Australian dollar weakened during 2018. In 2019 this is a net loss on foreign exchange of \$5 million and is included in Other operating expenses.

#### Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress increased from \$31 million in 2018 to \$39 million in 2019.

#### PRODUCTION COSTS

All-in total production costs, which include cash and non-cash operating costs, represent costs directly attributable to the production, transportation and selling of coal as well as indirect corporate costs, in particular, corporate employee costs, but excluding transaction costs. Cash operating costs comprise the cost of raw materials and consumables used, employee benefits, contractual services and plant hire and transportation. Non-cash operating costs include depreciation and amortisation.

Per ex-mine sales tonne <sup>(1)</sup>	Year ended 31 December	
	2019	2018
	\$/t	\$/t
<b>Cash operating costs</b>		
Raw materials and consumables used	20	20
Employee benefits	15	16
Transportation	16	16
Contractual services and plant hire <sup>(2)</sup>	11	11
<b>Cash operating costs (excluding royalties)</b>	<b>61</b>	<b>63</b>
Royalties	9	10
<b>Cash operating costs</b>	<b>70</b>	<b>73</b>
<b>Non-cash operating costs</b>		
Depreciation and amortisation <sup>(2)</sup>	17	16
<b>Total production costs</b>	<b>87</b>	<b>89</b>
Total production costs (excluding royalties)	78	79

<sup>(1)</sup> Ex-mine sales tonnes includes (i) 81% of the Moolarben unincorporated joint venture up to and including 30 November 2018 and 85% thereafter (ii) 67.6% of the unincorporated HVO joint venture up to and including 3 May 2018 and 51% thereafter (iii) 64.1% of the unincorporated MTW joint venture up to and including 28 February 2018 and 82.9% thereafter (iv) 100% of Yarrabee and Stratford Duralie.

<sup>(2)</sup> Effective from 1 January 2019 the Group has adopted the new accounting standard AASB 16 *Leases*. Under the new standard all lease arrangements are treated as “on balance sheet” replacing the previous operating and finance lease distinctions. The result of the change is that an operating lease expense is no longer included in the profit and loss as a contractual services and plant hire expense in the period incurred rather a “value in use” asset and lease liability is recognised on the balance sheet similar to the previous finance lease accounting treatment. The result of this change is a decrease in the Group’s cash operating costs with a largely offsetting increase in depreciation and interest. The 2018 numbers included above have been restated to enhance the comparability.

#### Raw materials and consumables used

Raw materials and consumables used increased by 6% from \$669 million in 2018 to \$707 million in 2019, primarily due to increased production. Per ex-mine sales tonne raw materials and consumables remained flat at \$20 over the same period.

#### Employee benefits

Employee benefits expenses increased by 1% from \$518 million in 2018 to \$525 million in 2019, primarily due to increased production being partially offset by improved labour productivity and a lower corporate expense. This contributed to a decrease in per ex-mines sales tonne employee benefits expenses from \$16 to \$15 over the same period.

#### Transportation

Transportation costs increased by 5% from \$537 million in 2018 to \$562 million in 2019, primarily due to increased sales volume of coal requiring additional payments for rail and freight services. Per ex-mine sales tonne transportation costs remained flat at \$16 over the same period.

#### Contractual services and plant hire

Contractual services and plant hire expenses decreased by -% from \$389 million in 2018 to \$388 million in 2019. The 2018 number included \$16 million of operating lease expenses no longer recognised in 2019. After adjusting for this amount contractual services and plant hire expenses would have increased by 4% from \$373 million in 2018 to \$388 million in 2019 primarily due to increased production. Per ex-mine sales tonne contractual services and plant hire costs, adjusted for the new lease accounting standard, remained flat at \$11 over the same period.

#### Government royalties

Government royalty expenses decreased by 11% from \$347 million in 2018 to \$310 million in 2019, primarily due to an 11% decrease in ex-mine coal sales revenue. Royalties are determined on an ad valorem basis by reference to the value of coal sold, the type of mine and the State the mine is located in and are payable to the appropriate State government. This contributed to a decrease in per ex-mines sales tonne government royalties from \$10 to \$9 over the same period.

#### Coal purchases

Coal purchases remained flat at \$332 million in both 2018 and 2019 reflecting a consistent level of coal purchases.

### Other operating expenses

Other operating expenses increased by 20% from \$74 million in 2018 to \$89 million in 2019, and included a \$5 million net loss on foreign exchange (2018: \$61 million net gain recognised in Other income). After adjusting for this amount other operating expenses increased by 14% impacted by several one-off items.

### Share of profit of equity-accounted investees, net of tax

Share of profit of equity-accounted investees, net of tax decreased by 143% from \$56 million in 2018 to a net loss of \$24 million in 2019 primarily due to the declining profit after tax performance of the incorporated Middlemount joint venture negatively impacted by an increase in strip ratio due to setting back the high wall and a 32% decrease in saleable production impacted by the unfortunate fatality at the mine in July 2019 together with the ongoing challenging geotechnical conditions and a 7% decrease in realised A\$ coal price. At 31 December 2019 the Group's equity-accounted investment in Watagan is held on the balance sheet at nil value such that the loss after tax of the Watagan group of \$856 million for the year ended 31 December 2019, including a \$973 million impairment provision, before tax, is not reflected in the Group's statement of profit and loss for the same period.

### Operating EBITDA and operating EBITDA margin

Operating EBITDA decreased by 25% from \$2,180 million in 2018 to \$1,635 million in 2019. The \$545 million decrease was due to (i) a \$426 million (9%) decrease in revenue and other income primarily due to lower coal prices; (ii) a \$54 million (2%) increase in costs primarily due to increased production; and (iii) a decrease in share of profit from Middlemount of \$80 million; partially offset by a \$15 million reduction in contractual services and plant hire due to the new lease accounting standard. Operating EBITDA margin as a percentage of operating revenue decreased from 45% in 2018 to 36% in 2019.

### Depreciation and amortization

Depreciation and amortisation expenses increased by 16% from \$523 million in 2018 to \$607 million in 2019 including the impact of the new lease accounting standard. The 2019 number includes \$25 million of additional depreciation on leases that was not recognised in 2018. After adjusting for this amount depreciation and amortisation would have increased by 11% over the same period primarily due to increased production, particularly on the Moolarben underground which carries a higher per tonne depreciation charge and the impact of some accelerated depreciation recognised at HVO and Stratford Duralie. Per ex-mine sales tonne depreciation and amortisation costs, adjusted for the new lease accounting standard, increased from \$16 to \$17 over the same period.

### Operating EBIT and operating EBIT margin

Operating EBIT decreased by 38% from \$1,657 million in 2018 to \$1,028 million in 2019 primarily due to 25% decrease in Operating EBITDA and a 16% increase in depreciation and amortisation as noted above. Operating EBIT margin as a percentage of operating revenue decreased from 34% in 2018 to 23% in 2019.

### Net finance costs

Net finance costs decreased by 37% from \$270 million in 2018 to \$171 million in 2019, primarily due to (i) an overall reduction in interest-bearing liabilities during 2019 compared to 2018 following several voluntary loan repayments; (ii) a reduction in the Yanzhou guarantee fee provided on the Group's syndicated facility; and (iii) a decrease in the Group's variable interest loans from an average of 7.10% in 2018 to an average of 6.59% in 2019 partially offset by a decrease in the A\$:US\$ exchange rate during the period from an average of 0.7479 in 2018 to an average of 0.6952 in 2019 resulting in an increase in the Australian dollar value finance charge, where the Group's loans are denominated in US dollars.

### Profit before income tax and profit before income tax margin

As a result of the aforementioned reasons, profit before income tax decreased by 35% from \$1,172 million in 2018 to \$767 million in 2019. Profit before income tax margin as a percentage of operating revenue decreased from 24% to 17% over the same period.

### Income tax expense

Income tax expense decreased by 17% from \$320 million in 2018 to \$267 million in 2019. The effective tax rate was 27.3% and 34.8% in the same periods, respectively, compared to the Australian corporate income tax rate of 30%. In 2019 the higher effective tax rate primarily resulted from non-deductible equity-accounted losses and prior year true ups. In 2018 the lower effective tax rate primarily resulted from certain non-assessable income items including part of the gain on the partial disposal of HVO partially offset by certain non-deductible items including the re-measurement and impairment of financial assets relating to Wiggins Island Coal Export Terminal ("WICET") and stamp duty.

### Profit after income tax and profit after income tax margin

As a result of the aforementioned reasons, profit after income tax decreased by 16% from \$852 million in 2018 to \$719 million in 2019. Profit after income tax margin as a percentage of operating revenue decreased from 18% to 16% over the same period.

### OVERVIEW OF NON-OPERATING ITEMS

Non-operating items in the year ended 31 December 2019 and 2018 included the following:

	Year ended 31 December	
	2019	2018
	\$m	\$m
<b>Non-operating items</b>		
Fair value losses recycled from hedge reserve	(190)	(160)
Arbitration award	56	-
Re-measurement of royalty receivable	32	4
Re-measurement of contingent royalty	12	(33)
Gain on disposal of interest in joint venture	-	78
Re-measurement of financial assets	-	(29)
Impairment of financial assets	-	(21)
Stamp duty expensed	-	(25)
Transaction costs	-	(29)
<b>Profit before tax impact</b>	<b>(90)</b>	<b>(215)</b>
Tax base finalisation	<b>219</b>	<b>-</b>
<b>Profit after tax impact</b>	<b>129</b>	<b>(215)</b>

Fair value losses recycled from the hedge reserve of \$190 million (2018: \$160 million) represent retranslation losses on the Group's US dollar-denominated loans which are attributable to changes in US\$:A\$ foreign exchange rates. Under the Group's natural hedge policy, such losses are recycled to the statement of profit and loss based on the scheduled loan maturity dates. The amount of any fair value loss or gain recycled from the hedge reserve in a period is a function of the amount of the hedged US dollar loan scheduled to mature in that period and the respective US\$:A\$ exchange rates at the time the hedge was put in place and at the time the loan matured.

Arbitration award of \$56 million (2018: nil) relates to an international arbitration award to the Group in the second half of the year over a commercial dispute. The award itself was for \$49 million with \$7 million of interest also received. The full amount of the award has been received by the Group.

Re-measurement of the royalty receivable of \$32 million (2018: \$4 million) relates to the change in the estimated fair value of the Group's Middlemount royalty receivable recognised on its right to receive a royalty of 4% of Free on Board Trimmed Sales on 100% of the Middlemount mine coal sales.

Re-measurement of contingent royalty up by \$12 million (2018: down by \$33 million) represents a decrease in the provision recognised on the C&A Acquisition with respect to the contingent coal price-linked royalty potentially payable to Rio Tinto from 1 September 2020 due to a softening of the thermal coal price forecasts.

Tax base finalisation of \$219 million (2018: nil) relates to the finalisation of the tax base attributable to the Group on the C&A Acquisition.

In 2018 non-operating items also included a \$78 million gain on the disposal of a 16.6% interest in HVO, a \$29 million re-measurement of financial assets and a \$21 million impairment of financial assets both related to the decrease in the carrying value of the Group's investments in the WICET issued E Class Wiggins Island preference Securities and WICET issued Gladstone Island Long Term Securities, \$25 million of stamp duty on the acquisition of a further 28.9% interest in the Warkworth joint venture, a further 4% interest in the Moolarben joint venture and the final true up on the C&A acquisition and \$29 million of transaction costs recognised on the Hong Kong Initial Public Offering (IPO) (excluding capitalised equity raise costs) and the finalisation of the Warkworth, Moolarben and C&A acquisitions.

## CASH FLOW ANALYSIS

	Year ended 31 December		Change \$m
	2019 \$m	2018 \$m	
Net operating cash flows	1,548	1,747	(199)
Net investing cash flows	(392)	(55)	(337)
Net financing cash flows	(1,209)	(904)	(305)
<b>Net increase in cash</b>	<b>(53)</b>	<b>788</b>	<b>(841)</b>

### Net operating cash flows

Net operating cash inflows decreased by \$199 million (11%) to \$1,548 million reflecting a decrease in net receipts from customers over payments to suppliers primarily due to a 7% decrease in revenue over the same period.

### Net investing cash flows

Net investing cash outflows increased by \$337 million (613%) to \$392 million mainly reflecting the acquisitions and disposals undertaken by the Group. In 2019 investing cash outflows included (i) a \$42 million instalment payment for a further 4% in the Moolarben joint venture; (ii) \$285 million of capital expenditure, including exploration; and (iii) a net \$66 million provided to Watagan under the Watagan loan facility. In 2018 the net investing cash inflows included outflows of (i) \$353 million paid for a further 28.9% interest in the Warkworth joint venture and instalment payments for a further 4% interest in the Moolarben joint venture, net of cash acquired; (ii) \$198 million of capital expenditure, including exploration; (iii) a net \$123 million provided to Watagan under the Watagan loan facility; and (iv) \$119 million of non-contingent royalty payments relating to the C&A acquisition. These outflows were partially offset by inflows including (i) \$524 million received on the disposal of a 16.6% interest in the HVO joint venture, net of cash disposed and (ii) \$117 million received as a loan repayment from the Middlemount joint venture.

### Net financing cash flows

Net financing cash outflows increased by \$305 million (34%) to an outflow of \$1,209 million. In 2019 the net financing cash outflow included (i) \$698 million (US\$500 million) of voluntary debt repayments; and (ii) \$514 million of dividends. In 2018 the net cash outflow included (i) \$1,014 million (US\$750 million) of voluntary debt repayments; (ii) \$130 million interim dividend; and (iii) \$268 million of gross proceeds from the Hong Kong IPO.

## FINANCIAL RESOURCES AND LIQUIDITY

	Year ended 31 December		Change \$m
	2019 \$m	2018 \$m	
Current assets	1,773	1,922	(149)
Current liabilities	(2,112)	(913)	(1,199)
<b>Net current assets</b>	<b>(339)</b>	<b>1,009</b>	<b>(1,348)</b>
Total assets	11,093	11,379	(286)
Total liabilities	(4,930)	(5,541)	611
<b>Total equity</b>	<b>6,163</b>	<b>5,838</b>	<b>325</b>

Current assets decreased by \$149 million to \$1,773 million at 31 December 2019 mainly reflecting a decrease in cash on hand of \$69 million and trade and other receivables of \$99 million partially offset by an increase in inventories of \$35 million.

Current liabilities increased by \$1,199 million to \$2,112 million at 31 December 2019 mainly reflecting the reclassification of \$1,236 million (US\$866 million) of interest-bearing liabilities from non-current to current due to two debt tranches maturing in the next 12 months; US\$300 million in June 2020 and US\$566 million in December 2020.

Total assets decreased by \$286 million to \$11,093 million at 31 December 2019 reflecting the decrease in current assets of \$149 million noted above together with a \$171 million decrease in mining tenements due to amortisation during the Period.

Total liabilities decreased by \$611 million to \$4,930 million at 31 December 2019 mainly reflecting the voluntary debt repayments of \$698 million noted above.

Total equity increased by \$325 million to \$6,163 million at 31 December 2019 mainly reflecting the \$719 million profit after income tax for the year and the \$122 million decrease in the hedging reserve partially offset by dividend payments of \$514 million.

The Group's primary source of liquidity was operating cash flows that contributed \$1,548 million in the year ended 31 December 2019. This enabled the payment of dividends of \$514 million and the further repayment of interest-bearing liabilities of \$698 million during the year ended 31 December 2019.

For the year ending 31 December 2020 the primary source of liquidity is expected to continue to be operating cash flows for ongoing business supplemented by refinancing existing interest-bearing liabilities due within the next 12 months and potentially additional interest-bearing liabilities for any possible transactions. Historically, the Group's primary sources of liquidity have consisted of operating cash flows, interest-bearing liabilities, including shareholder loans, and new equity. The Group's capital structure and gearing ratio is set out in the table below.

	Year ended 31 December		Change \$m
	2019 \$m	2018 \$m	
Interest-bearing liabilities	3,498	4,124	(626)
Less: cash and cash equivalents	(962)	(1,031)	69
<b>Net debt</b>	<b>2,536</b>	<b>3,093</b>	<b>(557)</b>
Total equity	6,163	5,838	325
<b>Net debt + total equity</b>	<b>8,699</b>	<b>8,931</b>	<b>(232)</b>
Gearing ratio <sup>(1)</sup>	0.29	0.35	

<sup>(1)</sup> The Group's gearing ratio is defined as net debt (being interest-bearing liabilities less cash and cash equivalents) divided by net debt + total equity.

The Group's objective when managing its capital structure is to provide sustainable dividends to equity holders, pay down interest-bearing liabilities to a supportable level whilst providing capital towards sustaining capital expenditure and organic and inorganic expansion opportunities.

The gearing ratio reduced from 35% to 29% during the Period.

The Group's Interest-bearing liabilities include secured bank loans of \$2,240 million (2018: \$2,572 million) and unsecured loans from related parties of \$1,164 million (2018: \$1,510 million) both denominated in US dollars and lease liabilities of \$94 million (2018: \$42 million) denominated in Australian dollars.

Secured bank loans carry a floating interest rate calculated with reference to the 3 month LIBOR rate for which the average all-in rate for the year ended 31 December 2019 was 6.59% (2018: 7.10%). Unsecured loans from related parties carry a fixed interest rate for which the rate for the year ended 31 December 2019 was 7.00% (2018: 7.00%).

The Group's cash and cash equivalents includes \$395 million (2018: \$282 million), US\$346 million (2018: US\$395 million) and HK\$396 million (2018: HK\$1,046 million).

While the Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the A\$, foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US\$, procurement of diesel and imported plant and equipment, which can be priced in US\$ or other foreign currencies, and debt denominated in US\$.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts or other hedging instruments and the terms of these contracts.

The hedging policy of the Company aims to protect against the volatility of cash expenditures or reduced collection in the abovementioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Company hedges a portion of contracted US\$ sales and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in the A\$ against the relevant currencies.

More details on interest-bearing liabilities, cash and cash equivalents and equity including types of instrument used, security provided, maturity profile of interest-bearing liabilities, interest rates and hedging strategies are included in notes D2, D4 and D9 to the financial statements in this report.

### **Available debt facilities**

As at 31 December 2019 the Group has \$583 million of undrawn debt under its \$1,400 million unsecured facility from related parties.

As at 31 December 2019 the Group has \$115 million of undrawn bank guarantee facilities that are provided for operational purposes in favour of port, rail, government departments and other operational functions in the normal course of business.

### **CAPITAL EXPENDITURE AND COMMITMENTS**

During the year ended 31 December 2019 capital expenditure cash flows of the Group amounted to \$285 million (2018: \$198 million) comprising \$282 million (2018: \$194 million) of property, plant and equipment and \$3 million (2018: \$4 million) of exploration.

As at 31 December 2019 commitments of the Group comprised capital commitments of \$53 million.

### **SIGNIFICANT INVESTMENTS**

The Company continues to look for high quality acquisition opportunities. The Company has not completed any significant inorganic investments since the end of 2019 but will inform the market as required if and when any transaction occurs. The Group focuses on organic growth opportunities and business as usual capital expenditure.

The Group continues to pursue its long-term strategy for organic growth, with a commitment to progressing its brownfield expansion and extension projects.

In the year ahead, the Group will continue to focus on exploration and expansion works across the tier-one assets of MTW, HVO and Moolarben, to be funded from operating cash flows.

Key projects include finalising the pre-feasibility study for an underground development at MTW with an estimated capacity 6 million ROM tonnes per annum, which will be completed in June 2020.

We will continue to ramp-up production at Moolarben where maximising extraction rates in both the open cut and underground mines is a priority for the Company.

A revised HVO Life of Mine plan is being developed targeting further synergy opportunities.

Organic growth opportunities are expected to be funded through operating cashflows as part of the group's overall capital expenditure program.

Funding of any inorganic opportunities will be assessed on a case by case basis and could include funding from operating cashflows, interest-bearing liabilities or equity. It is noted as part of the Hong Kong listing HK\$392 million (A\$72 million) was reserved for future M&A activity and is currently still available.

### **MATERIAL ACQUISITIONS AND DISPOSALS**

During the Period, the Group made no material acquisitions or disposals.

### **EMPLOYEES**

As at 31 December 2019, the Group had approximately 2,900 employees (including contract labour who are full time equivalents), all located in Australia, in addition to other contractors and service providers who support the Group's operations by delivering fixed scopes of work. For the year ended 31 December 2019, the total employee costs (including director's emoluments, HVO employees who are not included in the employee number above and excluding contract labour, contractors and service providers whose costs are included in Contractual services and plant hire) amounted to \$525 million (2018: \$518 million).

Remuneration packages and benefits are determined in accordance with market terms, industry practice as well as the nature of duties, performance, qualifications and experience of employees and are reviewed on an annual basis. Remuneration packages include base wages or salaries, short-term site production bonuses, short and long-term staff incentives, non-monetary benefits, superannuation and long service leave contributions and insurance.

The Group's remuneration policies ensure remuneration is equitable, aligns with the long-term interests of the Group and Shareholders, comply with the diversity policy, provide market competitive remuneration to attract and retain skilled and motivated employees and structure incentives to link rewards with performance.

Details of the Group's incentive plans are included in the Remuneration Report in the Directors' Report in this report.

The Company believes that capable and competent employees contribute to the success of the Group. The Group invests in competence development and assurance programs to ensure statutory compliance and zero harm to its employees. The Group also contributes to the ongoing professional development of its employees. This investment contributes to a pipeline of employees who are ready to transition into new roles as well as creating a value proposition for new employees looking to join the Group.

#### **EVENTS OCCURRING AFTER THE REPORTING DATE**

Other than as disclosed below, no matters or circumstances have occurred subsequent to the end of the Period which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state-of-affairs of the Group.

On 28 February 2020, the Directors declared a final unfranked dividend totaling \$280 million (21.2 cents per share), with a record date of 16 March 2020 and payment date of 29 April 2020.

#### **FINANCIAL AND OTHER RISK MANAGEMENT**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include currency risk, price risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies and procedures for management of these risks.

##### **Currency Risk**

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement.

The hedging policy of the Group aims to protect against the volatility of cash expenditures or reduced collections in the above-mentioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end. The latter is achieved through the use of a natural cash flow hedge whereby unrealised foreign exchange gains or losses arising on US dollar denominated loans are deferred on the balance sheet in a hedge reserve included in equity. Such deferred gains or losses are recycled to the profit or loss during the six-month period in which the loan is scheduled to be repaid. There is no guarantee that that this natural cash flow hedge will be sufficient to offset any foreign exchange losses, and material foreign exchange losses could negatively impact our financial condition.

See note D9(a)(i) to the financial statements in this report for further details on foreign currency exposure and a sensitivity analysis of the impact of hypothetical increases and decreases in the Australian dollar against relevant foreign currencies.

##### **Price Risk**

The price risk of the Group includes coal price risk.

The Group does not enter into commodity contracts other than coal purchases to meet the Group's expected usage and sales requirements, such contracts are not settled net. The royalty receivable from Middlemount is exposed to fluctuations in coal price. The Group currently does not have any derivative hedges in place against the movement in the spot coal price. See note D9(d)(iii) to the financial statements in this report for the royalty receivable coal price sensitivity analysis.

Coal sales are predominately provisionally priced initially. Provisionally priced sales are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables. The final sales price is determined normally 7 to 90 days after delivery to the customer. At 31 December 2019, there are \$114 million of provisionally priced sales still to be finalised, of which \$99 million is yet to be received. If prices were to increase by 10% provisionally priced sales would increase by \$11 million.

##### **Interest Rate Risk**

The Group is subject to interest rate risk that arises from borrowings and cash and cash equivalents. Generally, no variable interest is receivable or payable on the Group's trade and other receivables or payables where applicable as they are fixed in nature and therefore they are not exposed to the interest rate risk.

The Group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Floating rate borrowings bearing LIBOR rates are re-set on a quarterly basis.

See note D9(a)(iii) to the financial statements in this report for a sensitivity analysis of the impact of hypothetical increases in interest rates.

## **Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2019 the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from the carrying amount of the respective recognised financial assets as stated in the Consolidated Balance Sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group.

In order to minimise credit risk, management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Letters of Credit in favour of Yancoal are requested from some customers. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The Group maintains its cash and cash equivalents with reputable banks. Therefore, the Directors consider that the credit risk for such amounts are minimal.

See note D9(b) to the financial statements in this report for further details on the Group's overall credit risk exposure.

## **Liquidity Risk**

Liquidity risk includes the risk that the Group will not be able to meet its financial obligations as they fall due. The Group will be impacted in the following ways:

- (i) will not have sufficient funds to settle transactions on the due date;
- (ii) will be forced to sell financial assets at a value which is less than what they are worth; or
- (iii) may be unable to settle or recover a financial asset at all.

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and [having readily accessible standby facilities in place] in accordance with the Board's risk management policy.

See note D9(c) to the financial statements in this report for further details on the remaining contractual maturity of the Group's financial liabilities.

## **CONTINGENT LIABILITIES**

The contingent liabilities of the Group as at 31 December 2019 comprise (i) \$921 million (2018: \$875 million) of bank guarantees comprising \$417 million (2018: \$471 million) of performance guarantees provided to third parties and \$504 million (2018: \$404 million) of guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute with respect to the Group's owned and managed mines (ii) a letter of support provided to the Middlemount Coal Pty Limited joint venture and (iii) a number of claims that have been made against the Group, including in respect of personal injuries, and in relation to contracts which Group members are party to as part of the Group's day to day operations.

See note D8 to the financial statements in this report for further details on the Group's contingent liabilities.

## **CHARGES ON ASSETS**

The Group has a Syndicated Bank Guarantee Facility provided by a syndicate of seven Australian and International banks totalling \$1 billion. As at 31 December 2019 the facility was drawn to \$885 million.

The Group has a Syndicated Term Loan facility provided by a syndicate of five Australian and International banks totalling US\$300 million. As at 31 December 2019 the facility was fully drawn.

The Syndicated Bank Guarantee and Term Loan facilities are both secured by the assets of the consolidated group of Yancoal Resources Ltd and Coal & Allied Industries Ltd (both wholly owned subsidiaries of Yancoal Australia) with a carrying value of \$6,435 million as at 31 December 2019.

## **FUTURE PROSPECTS**

Yancoal will maintain strong cost discipline, with 2020 cash costs (excluding government royalties) expected to remain flat at around \$61/t (2019: \$61/t).

2020 guidance for saleable coal production is approximately 36 Mt (attributable). Expected 2020 capital expenditure cash flow is around \$380 million (attributable).

Yancoal has a long-term strategic commitment to organic growth, through brownfield expansion and extension projects. The current focus remains on exploration and expansion works across MTW and Moolarben.

For 2020 and subject to the ongoing cash needs of the business Yancoal will target a dividend payout of (A) 50% of net profit after tax (pre-Abnormal Items); or (B) 50% of the free cash flow (pre-Abnormal Items), whichever is higher.

## **CONTINUING CONNECTED TRANSACTIONS**

The Company has entered into certain transactions with connected persons of the Company which constitute continuing connected transactions of the Company under the HK Listing Rules. These non-exempt continuing connected transactions, in respect of which the Company has complied with the relevant requirements under Chapter 14A of the HK Listing Rules, are set out below.

### **1. Sale of Coal by the Group**

From time to time, Yanzhou (the controlling shareholder of the Company who is interested in approximately 62.26% of the Shares in the Company) and/or its subsidiaries (excluding the Group) may purchase coal from the Group primarily for their own trading purposes. The Company entered into a framework coal sales agreement with Yanzhou (the "Yanzhou Framework Coal Sales Agreement") on 8 October 2018 to govern all existing and future sale of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group). The Yanzhou Framework Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Yanzhou and/or its subsidiaries (excluding the Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to market indices, adjusted for coal characteristics and an optional analysis to ensure the price is negotiated on an arm's length basis and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Yanzhou Framework Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Yanzhou Framework Coal Sales Agreement.

The maximum annual transaction amount to be received by the Group from Yanzhou and/or its subsidiaries (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$250.0 million, US\$250.0 million and US\$250.0 million, respectively. During the year ended 31 December 2019, the transaction amount received by the Group was approximately US\$95.5 million, which was below the annual cap.

### **2. Purchase of Coal by the Group**

The Group has purchased and may, from time to time, purchase coal from Yanzhou and/or its subsidiaries, in particular Australian based subsidiaries of Yanzhou holding mines which are managed by the Group, for back-to-back on sale to end customers in order to fulfil customer requirements and maintain customer relationships.

The Company entered into a framework coal purchase agreement with Yanzhou (the "Framework Coal Purchase Agreement") on 8 October 2018 to govern all existing and future purchases of coal by the Group from Yanzhou and/or its subsidiaries (excluding the Group). The Framework Coal Purchase Agreement provides that all transactions in relation to the purchase of coal by the Group from Yanzhou and/or its subsidiaries (excluding the Group) must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to industry index prices and coal quality characteristics under the respective contracts and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Framework Coal Purchase Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Framework Coal Purchase Agreement.

The maximum annual transaction amount to be paid by the Group to Yanzhou and/or its subsidiaries (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$65.0 million, US\$65.0 million and US\$65.0 million, respectively. During the year ended 31 December 2019, the transaction amount paid by the Group was approximately US\$5.3 million, which was below the annual cap.

### **3. Provision of Management Services by the Company**

As one of the conditions imposed by the Foreign Investment Review Board of the Australian Government in relation to the merger of the Company with Gloucester in 2012, a management and transitional services agreement (the "Management and Transitional Services Agreement") was entered into between the Company and the following entities (the "Existing Recipients"), comprising (i) Yanzhou, (ii) Yancoal Technology Development Holdings Pty Ltd, (iii) Premier Coal Holdings Pty Ltd, (iv) Athena Holdings Pty Ltd, (v) Tonford Holdings Pty Ltd, (vi) Wilpeena Holdings Pty Ltd and (vii) Yancoal Energy Pty Limited, in 2012, pursuant to which the Company has agreed to provide to the Existing Recipients each Services (as described below) in respect of certain assets owned by the Existing Recipients. Each of the Existing Recipients is a wholly owned subsidiary of Yanzhou (other than Yanzhou itself). Yanzhou is a Controlling Shareholder of the Company and is interested in approximately 62.26% of the Shares in the Company.

On 7 December 2016, a deed of variation, accession and termination agreement of the Management and Transitional Services Agreement was entered into among the Existing Recipients, Yankuang Resources Pty Ltd ("Yankuang Resources"), Yankuang (Australia) Metal Mining Pty Ltd. ("Yankuang (Australia) Metal Mining"), together with Yankuang Resources and the Existing Recipients, the "Recipients") and the Company, pursuant to which Yankuang Resources and Yankuang (Australia) Metal Mining became parties to the Management and Transitional Services Agreement and are entitled to all rights and benefits of an Existing

Recipient under the Management and Transitional Services Agreement. Yankuang Resources and Yankuang (Australia) Metal Mining are both wholly-owned subsidiaries of Yankuang. Yankuang is, directly and indirectly, interested in approximately 53.79% of the shares in Yanzhou and is a controlling shareholder of the Company.

Details of the terms of the Management and Transitional Services Agreement are set out below.

**(I) Services**

The Services provided to each Recipient and each of their respective subsidiaries (excluding the Group and Yanzhou) include

(i) General Corporate services, which comprise human resource services, treasury services, financial accounting/reporting services, compliance services, marketing and logistic services, corporate communications services, government and industry relations services, business development services and other general corporate services,

(ii) Operations Services, which comprise carrying out exploration programs, preparing business plans, monitoring and reporting on environmental issues, using all reasonable endeavours to meet business KPIs, preparing plans of operations as may be required by laws and other operational services and

(iii) IT Services, which comprise the granting of the permission to use the Company's hardware or software and the provision of IT support services.

During the term, each party may request that the Company provide an additional service or the Company may change or modify the provision of an existing service by notifying the parties in writing. Following receipt of the notice, representatives of each party must promptly meet to discuss in good faith the proposed new services or modified services.

**(II) Services Fees**

The services fees for provision of the Services are charged on the basis of cost plus a 5% margin, except for any third party charges attributable to the provision of the relevant services which are charged at cost. The cost base upon which 5% margin is applied is determined on the basis of management's reasonable estimate of such costs at the commencement of each calendar year having regard to certain principles, including (i) in respect of coal-mining operations, the total budgeted corporate administration costs of the Company and the budgeted proportion of overall product tonnes of the relevant mining operation, (ii) in respect of non-coal mining businesses, the estimated management hours and the hourly rate for such work and (iii) in respect of disbursement, full recovery of any hard disbursements incurred by the Company.

At the end of each financial year (or such other times as the parties may agree), the parties will undertake a reconciliation of the fees charged during that financial year against the actual cost and services provided. The Company will refund the excess charges or the Recipients will pay the shortfall charges to the Company, in each case, within 14 days of determination of the fee adjustment required.

**(III) Payment of the Services Fees**

The Company will invoice the Recipients quarterly in arrears for services provided and the Recipients must pay to the Company within 30 days after the receipt of the invoice.

Notwithstanding that the term of the Management and Transitional Services Agreement may exceed three years, the Company has set the annual caps for the transactions under the Management and Transitional Services Agreement for a term of three years and will re-comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amount to be charged by the Group from the Recipients for the three years ending 31 December 2018, 2019 and 2020 will not exceed \$15 million, \$15 million and \$15 million, respectively. During the year ended 31 December 2019, the transaction amount charged by the Group was approximately \$8.9 million, which was below the annual cap.

**4. Loan Facility Provided by the Company**

Premier Coal Holdings Pty Ltd, an indirect wholly-owned subsidiary of Yanzhou ("Premier Coal") (as the borrower), entered into a loan agreement with the Company (as lender) on 15 June 2016 in relation to an \$50 million uncommitted revolving loan with a fixed interest rate of 7% per annum (the "Premier Coal Loan Agreement"). Pursuant to the Premier Coal Loan Agreement, the Company may terminate or cancel the facility at any time and amounts already advanced to Premier Coal prior to the termination or cancellation are required to be repaid immediately. The termination date will be the date 12 months after the date of the Premier Coal Loan Agreement, subject to automatic extension on a rolling 12 months basis, or any earlier date on which the facility is terminated or cancelled in full or on which all the money owing becomes due and payable.

The maximum daily drawn-down principal of the loan under the Premier Coal Loan Agreement (including the interest accrued thereon) for the three years ending 31 December 2018, 2019 and 2020 will not exceed \$53.5 million, \$53.5 million and \$53.5 million, respectively. The annual caps represent the facility limit under the Premier Coal Loan Agreement and the maximum interest to be received. As at 31 December 2019, no amount remained drawn down under the Premier Coal Loan Agreement.

## **5. Bank Guarantees Provided in favour of Yanzhou's Subsidiaries**

### **5.1 Syndicated Facility Agreement**

Yancoal Resources Limited ("Yancoal Resources"), a wholly-owned subsidiary of the Company, entered into a syndicated facility agreement (as amended from time to time) (the "Local Banks Secured Syndicated Facility Agreement") with financiers who are independent third party commercial banks, on 11 October 2005, pursuant to which the financiers have agreed to grant to the borrowers, being Yancoal Resources and any new borrowers as agreed by the financiers, a dollar contingent liability facility (which may also be drawn in US\$), under which, the financiers will issue credit support documents, including bank guarantee and letter of credit, in the name of the borrowers. Subject to amendment and restatement from time to time, the Local Banks Secured Syndicated Facility Agreement is for a term of three years.

The Company manages certain mines on behalf of Yanzhou. In the ordinary and usual course of business, the subsidiaries of Yanzhou holding the managed mines may require credit support documents issued by commercial banks for their respective business operations. Given the relevant commercial banks can issue credit support documents pursuant to existing facility agreements generally within 5 business days after receiving a request, which is a much shorter period of time and simpler process as compared to those required by other commercial banks to issue credit support documents without an existing facility agreement and the relationship between the Company and the managed mines, as an integral part of the management services rendered by the Company in support of the operation of the managed mines, the subsidiaries of Yanzhou holding the managed mines will use the overall bank guarantee facilities, including the Syndicated Facility and the facility under the Local Banks Secured Syndicated Facility Agreement, and pay the Company bank guarantee fees, which are equal to the fees to be paid by the Company to the commercial banks.

The aggregate maximum daily outstanding principal and the bank guarantee fees to be received under the credit support documents issued by commercial banks in favour of the subsidiaries of Yanzhou (excluding the Group) for the three years ending 31 December 2018, 2019 and 2020 will not exceed \$123.4 million, \$128.6 million and \$133.7 million, respectively. During the year ended 31 December 2019, the aggregate maximum daily outstanding principal and the bank guarantee fees was approximately \$113.3 million, which was below the annual cap.

On 19 December 2019, the Company entered into a framework bank guarantee agreement with the subsidiaries of Yanzhou to govern the future issuance of bank guarantees for the three financial years ending 31 December 2020, 2021 and 2022. Further details are provided in section headed "5.2 Framework Bank Guarantee Agreement" below.

### **5.2 Framework Bank Guarantee Agreement**

The Company entered into a framework bank guarantee agreement with Athena Holdings Pty Ltd, Tonford Holdings Pty Ltd, Wilpeena Holdings Pty Ltd, Premier Coal Holdings Pty Ltd and Yancoal Energy Pty Ltd (together, the "Yanzhou Entities") (the "Framework Bank Guarantee Agreement") on 19 December 2019, pursuant to which the Yanzhou Entities and/or their subsidiaries may use overall bank guarantee facilities under the financing facilities entered or to be entered into by the Group, and pay the Company bank guarantee fees, which are equal to the bank guarantee fees to be paid by the Group to the relevant financiers plus a 5% margin within 20 business days after the payment by the Company. The initial term of the Framework Bank Guarantee Agreement is for a period of three years commencing 1 January 2020 and expiring on 31 December 2022 and is automatically renewed for a successive period of three years thereafter, subject to the compliance with the HK Listing Rules.

The Company manages certain mines, which are located in Australia on behalf of Yanzhou Entities and/or their subsidiaries. In the ordinary and usual course of business, the Yanzhou Entities and/or their subsidiaries of holding the managed mines may require credit support documents issued by commercial banks for their respective business operations. Given the relevant commercial banks can issue credit support documents pursuant to existing facility agreements generally within five business days after receiving a request, which is a much shorter period of time and simpler process as compared to those required by other commercial banks to issue credit support documents without an existing facility agreement and the relationship between the Company and the managed mines, as an integral part of the management services rendered by the Company in support of the operation of the managed mines, the Yanzhou Entities and/or their subsidiaries holding the managed mines will use the overall bank guarantee facilities entered or to be entered into by the Group and pay the Company bank guarantee fees.

The aggregate maximum daily outstanding principal and the bank guarantee fees to be received under the credit support documents issued by the financiers in favour of the Yanzhou Entities and/or their subsidiaries (excluding the Group) for the three years ending 31 December 2020, 2021 and 2022 will not exceed \$170 million, \$170 million and \$170 million, respectively.

## **6. Purchase of Coal by Glencore**

From time to time, Glencore Coal Pty Ltd ("Glencore") and/or its associates may purchase coal from the Group for on sale to end customers, in order to maintain customer relationships or to meet specific customer requirements. The Company entered into a framework coal sales agreement with Glencore (the "Glencore Framework Coal Sales Agreement") on 29 June 2018 to govern all existing and future sales of coal by the Group to Glencore and/or its subsidiaries and/or related entities. The Glencore Framework Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Glencore and/or its subsidiaries and/or related entities must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to the prevailing market price for the relevant type of

coal and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Company will take into account relevant industry benchmarks and indices when determining the market price. Glencore wholly owns Anotero Pty Ltd (“Anotero”). Anotero is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Glencore is a connected person of the Company by virtue of being a substantial shareholder of the Company’s subsidiary (through Anotero).

The Glencore Framework Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months’ prior notice or otherwise in accordance with the terms of the Glencore Framework Coal Sales Agreement.

The maximum annual transaction amount to be received by the Group from Glencore and/or its subsidiaries and/or its related entities for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$350 million, US\$350 million and US\$350 million, respectively. During the year ended 31 December 2019, the transaction amount received by the Group was approximately US\$68.3 million, which was below the annual cap.

### **7. Purchase of Coal by Sojitz**

From time to time, Sojitz Moolarben Resources Pty Ltd (“Sojitz”) and/or its subsidiaries may purchase coal from the Group primarily for their own trading purposes and for sale to end customers, typically into Japan. Specifically, Moolarben Coal Sales Pty Ltd has entered into a coal supply contract for a term of three years with Sojitz Corporation in March 2016 for onward supply of coal to a major industrial user in Japan. This contract is likely to be renewed and it is expected that this business will be ongoing. Sojitz is a substantial shareholder of the Moolarben joint venture, a subsidiary of the Company under the HK Listing Rules. Sojitz is a connected person of the Company by virtue of being a substantial shareholder of the Company’s subsidiary.

The coal sales agreement between the Company and Sojitz (the “Sojitz Coal Sales Agreement”) dated 6 August 2018 governs all existing and future sales of coal by the Group to Sojitz and/or its subsidiaries. The Sojitz Coal Sales Agreement provides that all transactions in relation to the sale of coal by the Group to Sojitz and/or its subsidiaries must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm’s length basis, (iii) on normal commercial terms with the sale price being determined with reference to market indices, coal quality and an optional analysis to ensure the price is negotiated on an arm’s length basis and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws.

The Sojitz Coal Sales Agreement expires on 31 December 2020 and is automatically renewable for successive periods of one year thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months’ prior notice or otherwise in accordance with the terms of the Sojitz Coal Sales Agreement.

The maximum annual transaction amount to be received by the Group from Sojitz and/or its subsidiaries for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$100 million and US\$100 million, respectively. During the year ended 31 December 2019, the transaction amount received by the Group was approximately US\$49.7 million, which was below the annual cap.

### **8. Sales of Coal by the Group to POSCO and/or its Associates**

From time to time, POSCO Australia Pty Ltd (previously known as Pohang Steel Australia Pty Ltd) (“POSCO”) and/or its associates may purchase coal from the Group for their own utilisation in the manufacturing of steel or generation of electricity. As POSCO is interested in 20% of the Mount Thorley JV, a subsidiary of the Company under the HK Listing Rules, POSCO is a connected person of the Company by virtue of being a substantial shareholder of the Company’s subsidiary.

The Group entered into four coal sales agreements with POSCO group companies that govern the sale of coal by the Group to POSCO and/or its associates for coal sales during the year ended 31 December 2019 (the “POSCO Coal Sales Agreements”).

The POSCO Coal Sales Agreements provide that all transactions in relation to the sale of coal by the Group to POSCO and/or its associates must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm’s length basis, (iii) on normal commercial terms with the sale price being negotiated between the parties on an arm’s length market related basis relative to industry benchmarks prices and reflecting coal quality, and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Group has been supplying POSCO and/or its associates for several years under annual contracts which are renewed annually, but where volume and price are renegotiated annually.

The maximum annual cap in respect of the POSCO Coal Sales Agreements for the year ended 31 December 2019 was US\$780 million. During the year ended 31 December 2019, the transaction amount received by the Group was approximately US\$163.6 million, which was below the annual cap.

As the POSCO Coal Sales Agreements are renewed annually, the Company will set an annual cap for the transactions under the POSCO Coal Sales Agreements for a further term of one year and will re-comply with the applicable requirements of the HK Listing Rules when the relevant agreements are renewed. As disclosed in the announcement of the Company dated 19 December 2019, and supplemental announcement dated 10 February 2020, the parties entered into four coal sales agreements with POSCO and/or its associates (the “2020 POSCO Coal Agreements”) on 19 December 2019. Of the 2020 POSCO Coal Sales Agreements, two will become effective on 1 January 2020 and will expire on 31 December 2020, and the other two will become effective on 1 April 2020

and will expire on 31 March 2021. Upon the 2020 POSCO Coal Sales Agreements becoming effective, the 2019 POSCO Coal Sales Agreements will cease to have any effect in accordance with their terms. The maximum annual transaction amount to be received by the Group and/or its subsidiaries for the year ending 31 December 2020 and the period from 1 January 2021 to 31 March 2021 will not exceed US\$600 million and US\$150 million respectively.

### **9 Purchase of Coal from Glencore**

From time to time, the Group may purchase coal from Glencore and/or its associates for on sale to end customers, in order to maintain customer relationships or to meet specific customer requirements. The Company entered into a framework coal purchase agreement with Glencore (the "Glencore Framework Coal Purchase Agreement") on 6 August 2018 to govern all existing and future purchase of coal by the Group from Glencore and/or its subsidiaries. The Glencore Framework Coal Purchase Agreement provides that all transactions in relation to the purchase of coal by the Group from Glencore and/or its associates must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms with the sale price being determined with reference to the prevailing market price for the relevant type of coal and (iv) in compliance with, amongst other things, the HK Listing Rules and applicable laws. The Company will take into account relevant industry benchmarks and indices when determining the market price. Glencore wholly owns Anotero which is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Glencore is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The Glencore Framework Coal Purchase Agreement expires on 31 December 2020 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the HK Listing Rules, unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Glencore Framework Coal Purchase Agreement.

The maximum annual transaction amount to be paid by the Group to Glencore and/or its subsidiaries for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$350 million, US\$350 million and US\$350 million, respectively. During the year ended 31 December 2019, the transaction amount paid by the Group was approximately US\$71.8 million, which was below the annual cap.

### **10. Purchase of Coal from Anotero**

As part of the Glencore Transaction, Coal & Allied Operations Pty Ltd ("CNAO"), a wholly-owned subsidiary of the Company, HVO Coal Sales Pty Ltd (the "SalesCo") and Anotero entered into a sales contract – Hunter Valley Operations Joint Venture on 4 May 2018 (the "HVO Sales Agreement"). The relevant mining and exploration licences of HVO are held directly by CNAO and Anotero as tenants in common in proportion to their respective participating interest in the Hunter Valley Operations Joint Venture ("HVO JV"). Pursuant to the HVO Sales Agreement, (i) each of CNAO and Anotero agrees to sell all of its entitled portion of finished coal product in saleable form that is produced by the tenements held by the HVO JV to the SalesCo only and the SalesCo agrees to purchase each of CNAO's and Anotero's entitled portion of coal product; (ii) the amount payable to each of CNAO and Anotero by the SalesCo shall be the total amount received by the SalesCo for that portion of product under each sales contract entered into between the SalesCo and its customers; and (iii) payment by the SalesCo to CNAO and Anotero shall be no later than 3 business days after receipt by the SalesCo of payment from its customers. Anotero is a substantial shareholder of subsidiaries of the Company under the HK Listing Rules. Anotero is a connected person of the Company by virtue of being a substantial shareholder of the Company's subsidiary.

The HVO Sales Agreement shall commence on the date of the HVO Sales Agreement and terminate upon the termination of the joint venture agreement in relation to the HVO JV in accordance with its terms.

Notwithstanding that the term of the HVO Sales Agreement may exceed three years, the Company has set the estimated maximum annual transaction amounts for the transactions under the HVO Sales Agreement for a term of three years and will re-comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amount to be distributed by the SalesCo to Anotero for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$750 million, US\$750 million and US\$750 million, respectively. During the year ended 31 December 2019, the transaction distributed by the SalesCo to Anotero was approximately US\$620.5 million, which was below the annual cap.

### **11. Purchase of Coal from POSCO**

The participants of the unincorporated joint venture in relation to Mt Thorley (the "MT JV") namely POSCO and Mount Thorley Operations Pty Ltd (previously known as R. W. Miller & Co. Pty Limited) ("MT Operations"), a wholly-owned subsidiary of the Company holding the relevant mining and exploration licences of Mount Thorley on behalf of the MT JV, entered into a sales contract with Miller Pohang Coal Co. Pty Limited (the "MT SalesCo") on 10 November 1981 (the "MT Sales Agreement"), respectively. MT SalesCo is a company jointly controlled by MT Operations and POSCO with MT Operations and POSCO holding 80% and 20% of its interest, respectively. Both the MT SalesCo and the MT JV are subsidiaries of the Company under the HK Listing Rules. As POSCO holds more than 10% of the interest in the MT SalesCo and has more than 10% participating interest in the MT JV, POSCO is a connected person of the Company by being a substantial shareholder of the subsidiaries of the Company. Accordingly, the transaction between the MT SalesCo and POSCO constitutes a continuing connected transaction of the Company under the HK Listing Rules.

Pursuant to the MT Sales Agreement: (i) each of POSCO and MT Operations agrees to sell all of its entitled portion of finished coal product in saleable form that is produced by the tenements held by the MT JV to the MT SalesCo only and the MT SalesCo agrees to purchase each of POSCO's and MT Operations' entitled portion of coal product; (ii) the amount payable to each of POSCO and MT Operations shall be the total amount received by the MT SalesCo for that portion of product under each sales contract entered into between the MT SalesCo and its customers; and (iii) payment by the MT SalesCo to POSCO and MT Operations shall be no later than seven days after receipt by the MT SalesCo of payment from its customers.

The MT Sales Agreement was entered into on 10 November 1981 and will last during the economic life of the Mount Thorley coal mine.

Notwithstanding that the term of the MT Sales Agreement may exceed three years, the Company has set the estimated maximum annual transaction amounts for the transactions under the MT Sales Agreement for a term of three years and will re-comply with the applicable requirements of the HK Listing Rules after the expiry of the initial three years. The maximum annual transaction amount to be distributed by the MT SalesCo to POSCO for the three years ending 31 December 2018, 2019 and 2020 will not exceed US\$90 million, US\$90 million and US\$90 million, respectively. During the year ended 31 December 2019, the transaction amount distributed by the MT SalesCo to POSCO was approximately US\$71.9 million, which was below the annual cap.

## **12. Purchase of Diesel Fuel from Glencore**

On 25 October 2019, HV Operations Pty Ltd ("HV Operations"), a subsidiary of the Company, entered into a diesel fuel supply agreement with Glencore Australia Oil Pty Ltd ("GAO"), pursuant to which HV Operations has agreed to purchase diesel fuel from GAO during the period from 1 November 2019 to 31 October 2022 (the "2019 Diesel Fuel Supply Agreement").

As GAO is a subsidiary of Glencore plc, which is the holding company of Anotero Pty Ltd, a substantial shareholder of HV Operations, GAO is a connected person of the Company by virtue of being an associate of a substantial shareholder of the Company's subsidiary.

The 2019 Diesel Fuel Supply Agreement became effective on 1 November 2019 and will expire on 31 October 2022. Pursuant to the 2019 Diesel Fuel Supply Agreement, HV Operations agrees to purchase, and GAO agrees to sell at a price agreed and applicable to the monthly quantity delivered as measured in accordance with the agreement. HV Operations will generate a purchase order prior to the month of delivery. GAO will deliver the volume of fuel in the purchase order by the date specified in that purchase order and HV Operations will make the payments after the delivery of the fuel. The basis for calculating the payments to be made is based on the volume delivered and the price determined following the tender process.

To ensure a fair and open tender process, an Independent Third Party has been engaged with extensive involvement in the commercial business-to-business diesel supply market to assist in the tender document preparation, submission evaluations and subsequent engagement with suppliers in negotiating the optimal outcome. A tender has been issued to several prospective suppliers. The negotiation process cycled three or four times with each supplier, including reviewing and verifying the accuracy and consistency of each submission made by the suppliers and ensuring that pricing is evaluated on consistent basis. Potential suppliers were determined and approved based on a variety of criteria, including reputation, reliability and the pricing submitted.

The maximum annual transaction amount to be paid by HV Operations to GAO for the purchase of diesel fuel for the period 1 November 2019 to 31 December 2019, the two years ending 31 December 2020 and 2021, and the period 1 January 2022 to 31 October 2022 will not exceed \$30 million, \$180 million, \$180 million and \$150 million, respectively. During the year ended 31 December 2019, the transaction amount paid by the Group was approximately \$22.3million, which was below the annual cap.

## **Review on continuing connected transactions**

Pursuant to Rule 14A.55 of the HK Listing Rules, the Directors (including independent non-executive Directors) have reviewed the above continuing connected transactions in the year ended 31 December 2019. The independent non-executive Directors hereby confirmed that the above continuing transactions have been entered into:

1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or better; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of Shareholders as a whole.

In accordance with the requirement of Rule 14A.56 and 14A.71(6)(b) of the HK Listing Rules, the Company has engaged the independent auditor of the Company to report on the continuing connected transactions of the Group.

Based on the results of procedures performed and in accordance with the aforesaid HK Listing Rules, the independent auditor has provided a letter to the Board confirming that nothing has come to their attention that cause them to believe that the continuing connected transactions:

- (i) have not been approved by the Board;

- (ii) were not, in all material respects, in accordance with the pricing policies of the Group;
- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) have exceeded their respective annual caps for the financial year ended 31 December 2019 set out in the prospectus and announcement of the Company.

In accordance with paragraph 14A.57 of the Listing Rules, a copy of the independent auditor's letter will be provided by the Company to the HK Stock Exchange.

The Company confirms that it has complied with the requirements of Chapter 14A of the HK Listing Rules in relation to all connected transactions and continuing connected transactions to which any Group member was a party during the year ended 31 December 2019. Please refer to Note E3 to the financial statements for a summary of the related party transactions entered into by the members of the Group for the year ended 31 December 2019. Other than those transactions disclosed in the section headed "Continuing Connected Transactions" above, none of these transactions constitutes a disclosable connected transaction as defined under the HK Listing Rules.

## **DIRECTORS' CONFIRMATIONS**

### **Director's Interest in Competing Business**

Baocai Zhang, who is a non-executive Director, serves as a director of Yankuang. Xiangqian Wu and Qingchun Zhao, who are non-executive Directors, serve as the directors of Yanzhou. Yankuang and Yanzhou are the controlling shareholders of the Company. As at 31 December 2019, Yankuang is, directly and indirectly, interested in approximately 53.79% of the shares in Yanzhou and Yanzhou is interested in approximately 62.26% of the shares in the Company. Yankuang is principally engaged in the production and sale of coal, coal chemicals and aluminium, power generation, machinery manufacturing and financial investments. Yanzhou is principally engaged in the production of coal and coal chemicals, manufacturing of mechanical and electrical equipment and power and heat generation. Yankuang does not have any interests in mines in Australia other than through its interests in Yanzhou and the Group. The mining assets of Yanzhou located in Australia, other than through its interest in the Group, are managed and operated by the Company.

Except as disclosed above, none of the Directors are interested in any business apart from the Group's business which competes with or is likely to compete, either directly or indirectly, with the Group's business during the year ended 31 December 2019.

### **Letters of appointment and service contracts**

Each Director has entered into a letter of appointment in relation to his/her role as a director of the Company, which is subject to termination by the Director or the Company in accordance with the terms of the letter of appointment, the requirements of the Listing Rules and the provisions relating to the retirement and rotation of the Directors under the Constitution.

Pursuant to the terms of the letter of appointment entered into between each Director (on the one part) and the Company (on the other part), (a) the Executive Director and the non-executive Directors are not entitled to receive any director's fees; (b) the annual director's fees payable by the Company to each Independent Non-executive Director are \$165,000 (save for Gregory Fletcher who receives fees as set out in (e) below); (c) an Independent Non-executive Director (save for Gregory Fletcher) will receive from the Company an additional fee of \$40,000 for being the chairman of the audit and risk management committee, the nomination and remuneration committee or the health, safety, environment and community committee, (d) an Independent Non-Executive Director (save for Gregory Fletcher) will receive from the Company an additional fee of \$20,000 for being a member of the audit and risk management committee, the health, safety environment and community committee, the nomination and remuneration committee or the strategy and development committee, and certain additional fees on a per day basis as approved by the Board for the role on an independent board committee for any major related party transactions, and (e) Gregory Fletcher will receive \$360,000 including superannuation in aggregate for his role as a Co-Vice Chair of the Board, chairman of the audit and risk management committee, member of the nomination and remuneration committee and chair of the independent board committee.

Each Director is entitled to be indemnified by the Company (to the extent permitted under the Constitution and applicable laws) and to be reimbursed by the Company for all necessary and reasonable out-of-pocket expenses properly incurred in connection with the performance and discharge of his/her duties under his/her letter of appointment.

Save as disclosed above, none of the Directors has entered into any service contracts as a director with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## INTERESTS AND POSITIONS IN SHARES

### 1. Interests of the Directors and Chief Executive of the Company

As at 31 December 2019 the interests and/or short positions (as applicable) of the Directors and the chief executive of the Company in the Shares and debentures of the Company and any interests and/or short positions (as applicable) in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) which (1) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO), (2) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (3) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the HK Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

#### The Company

Name of Director or Chief Executive	Number of Shares	Interest in Underlying Shares <sup>1</sup>	Total Interest in Shares and Underlying Shares	Nature of Interest	Approximate Percentage
Baocai Zhang	274,404	-	274,404	Beneficial owner	0.02078%
Gregory James Fletcher	2,100	-	2,100	Beneficial owner	0.00016%
Geoffrey William Raby	22,858	-	22,858	Beneficial owner	0.00173%
Fucun Wang	-	495,085 <sup>2</sup>	558,213 <sup>2</sup>	Beneficial owner	0.04227%
Reinhold Schmidt	312,278	1,654,447 <sup>2</sup>	2,174,445 <sup>2</sup>	Beneficial owner	0.16468%

#### Associated corporations of the Company

Name of Director	Name of the associated corporation	Number of shares	Nature of Interest	Approximate percentage
Fuqi Wang	Yanzhou Coal Mining Company Limited	10,000	Beneficial owner	0.00034%
Xiangqian Wu	Yanzhou Coal Mining Company Limited	10,000	Beneficial owner	0.00034%

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company have an interest and/or short position (as applicable) in the Shares or debentures of the Company or any interests and/or short positions (as applicable) in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which (i) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (iii) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the HK Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

### 2. Interests of persons other than Directors and Chief Executive of the Company

As at 31 December 2019 the following persons (other than a Director or chief executive of the Company) had an interest and/or short position (as applicable) in the Shares or underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares Held or Interested	Approximate Percentage (%)
Yanzhou	Beneficial interest	822,157,715	62.26

<sup>1</sup> These represent the number of shares underlying the performance share rights which were granted pursuant to the Company's Equity Incentive Plan approved by the Board on 18 April 2018. The terms of the Equity Incentive Plan governing the grant of performance share rights are not subject to the provisions of Chapter 17 of the HK Listing Rules as it does not involve the grant of options by the Company to subscribe for new shares of the Company.

<sup>2</sup> Under Australian Accounting Standards, the 63,128 STIP Deferral held by Fucun Wang and 207,720 STIP Deferral held by Reinhold Schmidt have been accounted for as being cancelled due to the expectation that these are now to be settled in cash rather than equity.

Yankuang <sup>3</sup>	Interest in controlled entity	822,157,715	62.26
Cinda International HGB Investment (UK) Limited	Beneficial interest	209,800,010	15.89
China Agriculture Investment Limited	Interest in controlled entity	209,800,010	15.89
International High Grade Fund B, L.P.	Interest in controlled entity	209,800,010	15.89
Cinda International GP Management Limited	Interest in controlled entity	209,800,010	15.89
China Cinda (HK) Asset Management Co., Ltd <sup>4</sup>	Interest in controlled entity	209,800,010	15.89
Cinda Strategic (BVI) Limited	Interest in controlled entity	209,800,010	15.89
Cinda International Holdings Limited	Interest in controlled entity	209,800,010	15.89
Cinda Securities Co., Ltd	Interest in controlled entity	209,800,010	15.89
China Cinda (HK) Holdings Company Limited	Interest in controlled entity	209,800,010	15.89
China Cinda Asset Management Co., Ltd	Interest in controlled entity	209,800,010	15.89
Glencore Coal Pty Ltd	Beneficial interest	84,497,858	6.40
Glencore Holdings Pty Limited	Interest in controlled entity	84,497,858	6.40
Glencore plc <sup>5</sup>	Interest in controlled entity	84,497,858	6.40
CSIL <sup>6</sup>	Beneficial interest	71,428,571	5.41
Shandong Lucion Investment Holdings Group Co., Ltd	Interest in controlled entity	71,428,571	5.41

Save as disclosed above, as at 31 December 2019, none of the substantial shareholders or other persons, (other than the Directors and Chief Executive of the Company) had any interest or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company under section 33b of the SFO.

#### COMMUNICATION WITH SHAREHOLDERS

The Company believes in high standards of transparent corporate disclosure and is committed to disclosing to its shareholders information in a timely and fair manner via ASX and HKExnews. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is mainly made through:

- annual reports that are prepared and sent to all shareholders. The Board ensures that the annual report includes all relevant material information about the Company and the Group, including future developments and other disclosures required by the *Corporations Act 2001 (Cth)*, the ASX listing rules, the Companies Ordinance of the Laws of Hong Kong and the Hong Kong listing rules;
- interim reports containing a summary of the financial information and affairs of the Group for that period;
- quarterly production reports containing a summary of the Group's production output and coal sales for the reporting period;
- notices of explanatory memoranda for AGMs and extraordinary general meetings (if any) that are prepared and sent to all shareholders.

The Company does not practice selective disclosure. Price sensitive information is first publicly released through ASX and HKExnews. All shareholders of the Company will receive the Annual Report and the notice of AGM by post.

Shareholders can access all of the Company's announcements published on the ASX and HKExnews on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

#### DIVIDENDS AND DIVIDEND POLICY

Subject in each case to applicable laws, the ongoing cash needs of the business, the statutory and common law duties of the Directors and shareholders' approval, the Directors may pay interim and/or final dividends, and in accordance with the Company's Constitution must:

- subject to (ii) below, pay as interim and/or final dividends not less than (A) 50% of net profit after tax (pre-abnormal items); or (B) 50% of the free cash flow (pre-abnormal items), in each financial year; and

<sup>3</sup> Yankuang is deemed to be interested in the 822,157,715 Shares which Yanzhou is interested in as beneficial owner as it is entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Yanzhou.

<sup>4</sup> Cinda International HGB Investment (UK) limited, an indirect wholly owned subsidiary of China Cinda Asset Management Co., Ltd, is interested in 209,800,010 Shares which are held by J P Morgan Nominees Australia Limited as nominee. China Cinda Asset Management Co., Ltd., China Cinda (HK) Holdings Company Limited, Cinda International Holdings Limited, Cinda Securities Co., Ltd, Cinda Strategic (BVI) Limited, China Cinda (HK) Asset Management Co., Ltd, Cinda International GP Management Limited, International High Grade Fund B, L.P. and China Agriculture Investment Limited are each deemed to be interested in the 209,800,010 Shares which Cinda International HGB Investment (UK) Limited is interested in as beneficial owner.

<sup>5</sup> Glencore plc and Glencore Holdings Pty Limited are deemed to be interested in the 84,497,858 Shares which Glencore Coal Pty Ltd is interested in as beneficial owner. Glencore plc wholly owns Glencore Holdings Pty Ltd which in turn wholly owns Glencore Coal Pty Ltd.

<sup>6</sup> CSIL, a wholly owned subsidiary of Shandong Lucion Investment Holdings Group Co., Ltd, is interested in 71,428,572 Shares which are held by HSBC Custody Nominees (Australia) Limited – A/C 2 as nominee.

- (ii) if the Directors determine that it is necessary in order to prudently manage the Company's financial position, pay as interim and/or final dividends not less than 25% of net profit after tax (pre-abnormal items) in any given financial year.

The Company paid an interim dividend totaling \$136.7 million on 20 September 2019. The Company intends to pay a final dividend of \$280 million for the year ended 31 December 2019 to be paid on 29 April 2020.

#### **PRE-EMPTIVE RIGHTS ON NEW ISSUES OF SHARES**

Under the *Corporations Act 2001 (Cth)* and the constitution of the Company, shareholders do not have the right to be offered any Shares which are newly issued for cash before those Shares can be offered to non-Shareholders.

#### **PUBLIC FLOAT**

Based on the information available to the Company as at 31 December 2019, approximately 15.37% of the issued ordinary shares of the Company are held by the public. Accordingly the Company has complied with the waiver granted by The Stock Exchange of Hong Kong Limited under Rule 8.08(1) of The Rules Governing the Listing of Securities as part of the Company's listing in Hong Kong. Rule 8.08(1)(a) of the HK Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public.

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the minimum public float of approximately 15.37% under the HK Listing Rules.

#### **FULFILMENT OF CONDITIONS AND UNDERTAKINGS**

The Company confirms that it has complied with the conditions and undertakings imposed by The Stock Exchange of Hong Kong Limited during the period from 1 January 2019 to 31 December 2019.

#### **USE OF IPO PROCEEDS**

In connection with the global offering in Hong Kong, which was completed on 3 January 2019 (the "Global Offering"), the Company allotted and issued 59,441,900 new shares on 6 December 2018, 563,881 new shares on 28 December 2018 and 4,361,900 new shares on 3 January 2019 at a price of HK\$23.48 per share and raised HK\$1,511 million (\$268 million) in total gross proceeds. The net proceeds from the Global Offering amounted to approximately HK\$1,305 million after deduction of related expenses of approximately HK\$206 million (the "Net Proceeds").

The following table sets out the breakdown of the use of proceeds from the HK Listing as at the date of this annual report:

<b>S/N</b>	<b>Purpose of Net Proceeds</b>	<b>Amount Allocated HK\$'000</b>	<b>Amount Utilised HK\$'000</b>	<b>Balance HK\$'000</b>
1	Debt Repayment (48%)	626,507	626,507	-
2	Future M&A (30%)	391,567	-	391,567
3	Moolarben JV Acquisition (12%)	156,627	156,627	-
4	General Working Capital (10%)	130,522	130,522	-
	<b>Total (Net Proceeds)</b>	<b>1,305,223</b>	<b>913,223</b>	<b>391,567</b>

The above utilisations are in accordance with the intended use of the net proceeds and percentage allocated, as stated in the Company's prospectus for the Global Offering dated 26 November 2018. The Company expects to utilise the balance of Net Proceeds of approximately HK\$391 million in the next 12 months.

The Board will continue to update in periodic announcements on the utilisation of the balance of the proceeds from the HK Listing as and when the proceeds are materially disbursed and provide a status report on such use in its annual report and its quarterly and full year results announcements.

#### **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

#### **TAX RELIEF**

The Company is not aware of any relief on taxation available to the shareholders by reason of their holdings of the fully paid shares. If the shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the fully paid shares, they are advised to consult an expert.

#### **MAJOR CUSTOMERS AND SUPPLIERS**

The information in respect of the Groups sales to the major customers, and purchases from the major suppliers can be found in

Notes B2 and B5 to the consolidated financial statements.

To the knowledge of the Directors, none of the Directors, or their associates, had any beneficial interest in the five largest customers or suppliers. To the knowledge of the Directors, two substantial shareholders, Yanzhou Coal Mining Company and Glencore Coal (each owning more than 5% of the Company's issued capital) have a beneficial interest in two of the five largest customers. The details of the customer/sales agreements are provided in this 'Continuing Connected Transactions' section of this report.

## **CORPORATE GOVERNANCE STATEMENT**

### **Introduction**

The Company adopts an approach to corporate governance based on international best practice as well as Australian and Hong Kong law requirements. The Board and management are committed to corporate governance.

### **ASX Corporate Governance Statement**

To the extent appropriate to the scale and nature of the Company's business, the Company has adopted the 3<sup>rd</sup> edition of the ASX Corporate Governance Council's Principles and Recommendations ("ASX Recommendations"). This statement sets out the Company's compliance with the ASX Recommendations and the main corporate governance policies and practices adopted by the Company.

### **HK Listing and Compliance with the Hong Kong Corporate Governance Code**

The Company has also adopted the provisions of the Corporate Governance Code in Appendix 14 (the "HK Code") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HK Listing Rules") as part of its corporate governance policy.

The Company has implemented and applied the principles contained within the HK Code in conducting the Company's business, including reflecting those principles in the Company's Board Charter and relevant policies. In the opinion of the Board, the Company has complied with the code provisions of the HK Code (in addition to the relevant principles of the ASX Recommendations) for the financial year ended 31 December 2019. The conduct of the Company's compliance with the principles is discussed further in this statement.

### **Principle 1: Lay solid foundations for management and oversight**

#### ***Role of the Board***

The Board is responsible for the overall corporate governance, leadership and control of the Company including directing the affairs of the Company, setting and monitoring the Company's risk management strategy and overseeing the appointment, remuneration and performance of senior Executives. The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of the Company over the longer-term. Directors are expected to exercise their decision making in the best interests of the Company.

The Board's role and responsibilities and its delegation of authority to standing committees and senior Executives have been formalised in a Board Charter. The Board Charter can be found within the Corporate Governance section of the Company's website.

The Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice at the Company's expense.

#### ***Delegation to management***

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chair of the Executive Committee ("CEC"), the Chief Executive Officer ("CEO") and other senior Executives. The Executive Committee is a management committee comprising the CEC, CEO, the Chief Financial Officer ("CFO") and any other senior Executives that the Board resolves from time to time will be members of the Executive Committee.

The Executive Committee Charter sets out the functions of the Executive Committee and the duties of the CEC, CEO and CFO and provides for a clear division of responsibility between management and the Board. The Executive Committee Charter also provides the financial decision authorities and appropriate approval thresholds at different levels which have been approved by the Board.

Given the delegation of the day to day management of the Company, it is the responsibility of management, with the assistance of the Company Secretary, to provide the Directors with timely, adequate and appropriate information to assist the Directors in making informed decisions and to be able to effectively perform their duties and responsibilities.

### **Senior Executive contracts**

The Company's senior Executives are employed under employment contracts that set out the terms of their employment. In 2018, the Nomination and Remuneration Committee engaged external remuneration consultants to provide independent market benchmarking with respect to the remuneration of Yancoal Executives and Non-Executive Directors. In 2019, no structural changes were made to senior Executive contracts.

### **Company Secretary**

The Company Secretary supports and is accountable to the Board, through the Chairman of the Board (“Chairman”), on all matters to do with the proper functioning of the Board. The Company Secretary facilitates the timely flow of information within the Board and between the Board and management. All Directors have direct access to the Company Secretary. The Board Charter sets out the other duties of the Company Secretary, which include being responsible for:

- ensuring compliance by the Company with the Company’s constitution, the provisions of the *Corporations Act 2001* (Cth) and other applicable laws and Listing Rules as they relate to the Company;
- providing corporate governance advice to the Board and facilitating induction processes and the ongoing professional development of Directors;
- ensuring that the Board Charter and relevant policies and procedures are followed;
- ensuring that the Company’s books and registers required by the *Corporations Act 2001* (Cth), the Hong Kong Securities and Futures Ordinance (“SFO”) and other applicable laws are established and properly maintained;
- ensuring that all notices and responses are lodged with ASIC, ASX and HKEx on time; and
- organising and attending shareholders’ meetings and Directors’ meetings, including sending out notices, preparing agendas, marshalling proxies and compiling minutes.

The Company Secretary is Laura Ling Zhang. Ms Zhang has completed no less than 15 hours of professional training to update her skills and knowledge as required by the HKEx.

### **Nomination and appointment of Directors**

The Board considers that Board succession planning, and the progressive and orderly renewal of the Company’s Board membership, are an important part of the governance process. The Board’s policy for the selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. As part of this appointment and re-appointment process, the Directors consider Board renewal and succession plans and whether the Board’s size and composition is conducive to making appropriate decisions.

At the time of appointment of a new Non-Executive Director, the key terms and conditions relevant to that person’s appointment, the Board’s responsibilities and the Company’s expectations of a Director are set out in a letter of appointment. Each Director has entered into a letter of appointment with the Company. The Company has implemented an induction program, facilitated by the Company Secretary, through which new Non-Executive Directors are introduced to the Company’s operations and are familiarised with the Company’s strategy, culture and core values.

The Board has established a Nomination and Remuneration Committee to make recommendations to the Board on matters such as succession plans for the Board, the size and composition of the Board, potential candidates for appointment to the Board, re-election of Directors, Board induction and Board evaluation procedures. The structure and membership of the Nomination and Remuneration Committee is described further under Principles 2 and 8.

The Board recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. Whilst traditionally experience as a senior Executive or Director of a large organisation with international operations is a prerequisite for candidature, in accordance with the Diversity Policy, the Board also seeks skills and experience in the following areas:

- marketing and sales;
- policy and regulatory development and reform;
- health, safety and environment and social responsibility; and
- human resources.

In identifying candidates, the Nomination and Remuneration Committee considers and selects nominees by reference to a number of selection criteria including the skills, expertise and background that add to and complement the range of skills, expertise and background of the existing Directors, the capability of the candidate to devote the necessary time and commitment to the role, potential conflicts of interest and independence, and the extent to which the candidate would fill a present need on the Board. Where appropriate, the appropriate checks are undertaken prior to a Director being appointed. The mix of skills currently held by the Board is set out under Principle 2.

The role, rights and responsibilities and membership requirements of the Nomination and Remuneration Committee, together with the selection criteria for candidates for the Board are set out in the Nomination and Remuneration Committee Charter which can be found within the Corporate Governance section of the Company's website. In carrying out its duties, the Committee has regard to the ASX Principles and the principles in the HK Code, in particular, principles A.3 and A.4.

Shareholder approval is required for the appointment of Directors. However, Directors may appoint other Directors to fill a casual vacancy where the number of Directors falls below the constitutional minimum number of Directors and in order to comply with any applicable laws, regulations, the ASX Listing Rules or the HK Listing Rules. If a Director is appointed to fill a casual vacancy in these circumstances, the approval of members must be sought at the next general meeting.

No Director may hold office without re-election beyond the third annual general meeting ("AGM") following the meeting at which the Director was last elected or re-elected. The Company provides all material information in its possession, including the details of expertise and qualifications, details of any other material directorships, and any other material that the Board considers to be material to such a decision, in relation to Directors standing for election or re-election in the Notice of Meeting provided to shareholders prior to the AGM.

Each Non-Executive Director has been appointed for an initial term of not more than 3 years (and will be subject to retirement by rotation at least once every 3 years under rule 8.1 of the Company's Constitution, pending re-election by the shareholders at an annual general meeting). Each Independent Non-Executive Director has been appointed for an initial term of not more than 3 years and will be subject to retirement by rotation at least once every 3 years under rule 8.1 of the Company's Constitution, pending re-election by the shareholders at an annual general meeting.

To the extent that the ASX Listing Rules require an election of Directors to be held and no Director would otherwise be required under the Company's Constitution to submit for election or re-election at an AGM, the Director who has been the longest in office since their last election or appointment must retire at the AGM. As between Directors who were last elected or appointed on the same day, where it is not agreed between the relevant Directors, the Director to retire must be decided by lot.

The process for appointment, retirement and re-election of Directors is set out in the Company's Constitution which can be found within the Corporate Governance section of the Company's website.

## Diversity

The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Company's Diversity Policy, approved by the Board, seeks to actively facilitate a more diverse and representative management and leadership structure. The Diversity Policy is available in the Corporate Governance section of the Company's website.

Annually, the Board establishes measurable objectives with the assistance of the Nomination and Remuneration Committee with a view to progressing towards a balanced representation of women at a Board and senior management level.

The measurable objectives and performance against them are reviewed annually by the Nomination and Remuneration Committee as part of its annual review of the effectiveness of the Diversity Policy.

The measurable objectives adopted for 2019 and the Company's performance against the measurable objectives are outlined in the table below:

Objective	Performance
1. Review the Company's Diversity, Workplace Behaviour, Anti-Discrimination Policies and implements training on the latter two.	The Diversity Policy was updated and published on 18 December 2019. The Workplace Behaviour and Anti-Discrimination policy was also reviewed for the purposes of developing Corporate training materials to support the training sessions which were conducted in 2019. Regular training focussed on workplace behaviour is also conducted across sites.
2. Roll out the updated Parental Leave Policy.	The updated Parental Leave Policy, including enhanced provisions was effective from 1 January 2019. The revised policy provides 15 weeks of primary carers leave, an increase from the previous offering of 12 weeks. In addition, employees on unpaid parental leave will receive superannuation as if at work and should they return to work on

	a part time basis they shall receive superannuation at their pre-parental leave rate until their child reaches school age.
3. Update recruitment and onboarding processes to capture additional diversity measures, for example ethnicity, religion and cultural background.	On 1 November 2019, the Company's Success Factors Recruitment & Onboarding process commenced, whereby all applicants now complete a candidate profile which enables details such as place of birth, gender and ethnic group identification to be captured. For privacy reasons these details are optional. This will allow the Company to report on the diversity of both its candidate pipeline (where disclosed) as well as successful candidates.
4. Continue to target a diverse group of candidates with recruitment and selection procedures that are merit based and non-discriminatory.	Across the Yancoal group, merit-based, non-discriminatory practices continue to be followed.
5. Continue to ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.	<p>A human resources representative endeavours to sit with managers during interviews to coach and mentor them on targeted selection techniques and merit-based selection, as well as general diversity awareness with regards to candidates.</p> <p>As part of the Company's focus on retaining and motivating its current workforce, all sites implemented cultural improvement plans in 2019. These plans were designed to improve employee engagement based on the feedback received from the 2018 employee engagement survey. The result from the 2019 survey demonstrated an overall improvement in engagement as shown by the improvement in the overall net promoter score from -28.3 to 2.5, which represents an increase of approximately 30%.</p>

The Board has set the following measurable objectives in relation to gender diversity for 2020:

1. Provide training to the Human Resources team on behavioural based interviewing and unconscious bias, scheduled for February 2020.
2. Develop an e-learning module for Workplace Behaviour and implement in 2020.
3. Conduct a pay gap analysis to identify and address any pay equity concerns. Where equity issues are identified these should be addressed in the 2020 salary review process.
4. Measure the retention of female employees and should any issues be identified, seek to implement ways to address the issues.

***Proportion of Women in the Company***

Gender has been identified as a key area of focus for the Company. On an annual basis, the Nomination and Remuneration Committee reviews the proportion of women employed by the Company and submits a report to the Board outlining its findings. Details regarding the proportion of men and women throughout the organisation are set out below.

As at 31 December 2019, the proportion of women who were directly engaged by the Company as a whole was 12%: 329 Full-time, 21 Part-time, 7 Casual and 81 Managed Contractors. The proportion of women in Executive Committee roles within the Company during 2019 was 8%: Women held 1 of 13 Executive Committee roles within the Company.

On and from 30 January 2018, one female Non-Executive Director sits on the Board.

**Performance of the Board, its Committees and individual Directors**

The Nomination and Remuneration Committee oversees an annual evaluation process for the Board, its committees and each Director based on the Board Performance Evaluation Protocol ("Protocol") adopted and approved by the Board in

2012.

### ***The Board***

Periodically, a review of the structure and operation of the Board, the skills and characteristics required by the Board to maximise its effectiveness and whether the mix of skills, experience and expertise and the Board's practices and procedures are appropriate for the present and future needs of the Company is conducted. This evaluation of performance of the Board may be conducted with the assistance of an external facilitator. As set out in the Board Charter, the review of the Board involves Directors providing written feedback on the Board's performance to the Chairman or to an external facilitator, which in turn is discussed by the Board, with consideration of whether any steps for improvement are required.

It is expected that externally facilitated reviews will occur approximately every three years. The independent external facilitator will seek input from each of the Directors and certain members of senior management in relation to the performance of the Board against a set of agreed criteria.

Once an externally facilitated review occurs, the progress against any recommendations from the most recent externally facilitated review, together with any new issues, will be considered internally. Feedback from each Director against a set of agreed criteria will be collected by the Chairman or the external facilitator. The CEC and CEO will also provide feedback from senior Executives in connection with any issues that may be relevant in the context of the Board performance review. Feedback will be collected by the Chairman, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its committees.

Since the adoption of the Protocol in 2012, the Company carried out four annual board performance reviews internally, and has conducted one externally facilitated board performance review. An externally facilitated review of the Board was carried out in 2016 (in respect of 2015) and a review of the Board was conducted internally in 2018 (in respect of 2017), in accordance with process disclosed above. For the financial years ended 31 December 2018 and 31 December 2019, a board performance review has not yet been undertaken in accordance with the process disclosed above. It is expected that the Company will conduct a board performance review for the past financial year in 2020.

The Nomination and Remuneration Committee considers assessments by independent bodies regarding Boards of Australian companies and their performance. The Chair of the Nomination and Remuneration Committee reports any material issues or findings from these evaluations to the Board.

### ***Board committees***

Each of the four standing committees of the Board conducts an annual committee performance self-assessment to review performance using guidelines approved by the Nomination and Remuneration Committee. The guidelines include reviewing the committee's performance having regard to its role and responsibilities as set out in its Charter; consideration as to whether the committee's Charter is fit for purpose; and identification of future topics for training/education of the committee or its individual members.

The outcomes of the performance self-assessments are reported to the Nomination and Remuneration Committee (or to the Board, if there are any material issues relating to the Nomination and Remuneration Committee) for discussion and noting.

Each committee provides feedback to the Board on its own performance, which is collected by the Chairman or an external facilitator, and the feedback is discussed by the Board, with consideration of whether any steps for improvement are required.

The most recent review of the Board's committees was conducted in 2018 (in respect of 2017) in accordance with the process disclosed above. For the financial years ended 31 December 2018 and 31 December 2019, a Board committees' performance review has not yet been undertaken in accordance with the process disclosed above. It is expected that the Company will conduct such a performance review for the past financial year in 2020.

### ***Individual Directors***

Directors are evaluated on, amongst other things, their alignment with the values of the Company, their commitment to their duties and their level of financial, technical and specialist knowledge. Directors are also expected to be fully aware of their duties of care and skill, as well as fiduciary duties, as a Director.

An annual performance review of Non-Executive Directors is conducted by the Chairman for each Non-Executive Director, specifically addressing the performance criteria within the Protocol.

An annual review of the performance of the Chairman is facilitated by the Co-Vice Chairmen who seeks input from each Director individually on the performance of the Chairman against the competencies for the Chairman's role approved by

the Board. The Co-Vice Chairmen collate the input in order to provide an overview report to the Nomination and Remuneration Committee and to the Board, as well as feedback to the Chairman.

An externally facilitated review of individual Directors was conducted in 2016 (in respect of 2015) and an internal review was conducted in 2018 (in respect of 2017) in accordance with the process disclosed above. For the financial years ended 31 December 2018 and 31 December 2019, an annual performance review of Non-Executive Directors has not yet been undertaken in accordance with the process disclosed above. It is expected that the Company will conduct such a performance review for the past financial year in 2020. The requirements of the principles set out in the HK Code in respect of performance of the Directors will be taken into account in undertaking future Director reviews.

### ***Performance of Senior Executives***

The CEC and the CEO review the performance of senior Executives annually against appropriate measures as part of the Company's performance management system for all managers and staff.

On an annual basis, the Nomination and Remuneration Committee and subsequently the Board formally reviews the performance of the CEO and the CEC. The CEO's performance is assessed against qualitative and quantitative criteria, including profit performance, other financial measures, safety performance and strategic actions. The Nomination and Remuneration Committee also undertakes an annual formal review of the performance of other members of the Executive Committee, based on similar criteria. The Board reviews and approves the annual review of all the members of the Executive Committee undertaken by the Nomination and Remuneration Committee.

The performance evaluation for the CEC, CEO and senior Executives to take place in 2020 (in respect of 2019) will be in accordance with the process disclosed above.

## **Principle 2: Structure the Board to add value**

### ***Structure of the Board***

Currently, the Board comprises:

- Executive Director: Fucun Wang;
- Non-Executive Directors: Baocai Zhang, Cunliang Lai, Qingchun Zhao, Xiangqian Wu, Fuqi Wang and Xing Feng; and
- Independent Non-Executive Directors: Geoffrey William Raby, Gregory James Fletcher, David James Moulton and Helen Jane Gillies.

The skills, experience and expertise of each Director and the period that each Director has held office is disclosed in the Information on Directors in the Directors' Report, on pages 10 - 16.

The Constitution provides that there will be a minimum of 4 and a maximum of 11 Directors of the Company, unless the Company resolves otherwise at a general meeting.

The number of meetings held by the Board during 2019 and each director's attendance at these meetings is set out in the Directors' Report on page 17.

### ***Chairman of the Board***

The current Chairman, Baocai Zhang, was nominated by the Company's major shareholder, Yanzhou Coal Mining Co. Ltd ("Yanzhou"). The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board's functioning. The Chairman ensures that Directors have the opportunity to contribute to Board deliberations. The Chairman regularly communicates with the CEC and CEO and to review key issues and performance trends. The Chairman, together with the Co-Vice Chairmen, Fucun Wang and Gregory Fletcher, also represent the Company in the wider community.

The Chief Executive Officer is Reinhold Schmidt. The CEO is responsible for conduct and supervision of the management function of the Company, including implementing strategic objectives, plans and budgets approved by the Board. The CEO has overall responsibility for the Company's operations (other than as delegated to the CEC and undertaking such responsibilities as may be delegated to him by the Board from time to time. The CEO is accountable to the Board and reports to the Chairman of the Board and the CEC.

The roles of the Chairman and the CEO are separate and assumed by different individuals to ensure a balance of power and authority, so that power is not concentrated in any one individual of the Board. There is a clear division of responsibilities between the Chairman and the CEO.

**Board Committees**

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities.

The Board has established the following standing Board committees:

- Audit and Risk Management Committee;
- on and from 18 December 2019, Health, Safety, Environment and Community Committee (previously known as Health, Safety and Environment Committee)
- Nomination and Remuneration Committee; and
- Strategy and Development Committee.

These Board committees review matters on behalf of the Board and, as set out in the relevant Charter:

- refer matters to the Board for a decision, with a recommendation from the committee; or
- determine matters (where the committee acts with delegated authority), which the committee then reports to the Board.

The purpose of each of the Board committees is outlined below.

Committee	Purpose	Membership
Audit and Risk Management Committee	<p>The committee's objectives are to:</p> <ul style="list-style-type: none"> <li>• help the Board in relation to the reporting of financial information.</li> <li>• advise on the appropriate application and amendment of accounting policies;</li> <li>• make evaluations and recommendations to the shareholders of the Company regarding the external auditor;</li> <li>• recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution;</li> <li>• provide a link between the Board and the external auditor and management;</li> <li>• ensure that the Board, Directors and management are aware of material risks facing the business;</li> <li>• ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively; and</li> <li>• assess the independence of the external auditor.</li> </ul> <p>During the financial year ended 31 December 2019, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>• review and endorsement of the Company's Interim and Annual Financial Results;</li> <li>• consideration of external audit reports and approval of external auditor's audit plan;</li> <li>• engagement of non-audit services;</li> <li>• consideration of the Company's asset impairment assessments;</li> <li>• review of the revised Audit and Risk Management Committee Charter;</li> <li>• review of the Company's related party and connected transactions;</li> </ul>	<p>Independent Non-Executive Directors:</p> <p>Gregory Fletcher – Chair</p> <p>David Moulton</p> <p>Helen Gillies</p> <p>Non-Executive Directors:</p> <p>Qingchun Zhao</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>

	<ul style="list-style-type: none"> <li>review of the effectiveness of risk management and internal control systems and internal audit functions; and</li> </ul> <p>evaluation of the Company's debt facilities and 2019 debt prepayments along with consideration of the Company's dividend payments.</p>	
Health, Safety, Environment and Community Committee	<p>The committee assists the Board to:</p> <ul style="list-style-type: none"> <li>fulfil its responsibilities in relation to the health, safety, environment, and community (collectively HSEC) matters arising out of the activities of the Company;</li> <li>consider, assess and monitor whether or not the Company has in place the appropriate policies, standards, systems and resources required to meet the Company's HSEC commitments; and</li> <li>provide necessary focus and guidance on HSEC matters across the Company.</li> </ul> <p>During the financial year ended 31 December 2019, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>monitoring the Company's ongoing health and safety and environmental performance, including significant incidents and regulatory investigations;</li> <li>monitored the ongoing integration of the Company's health and safety systems for the acquired Coal &amp; Allied mine sites.</li> <li>overseeing major initiatives, including the Principal Hazard Management Project, Contractor Management project, MTW Fatigue Management Project and the Yancoal Community Support Program;</li> <li>considering independent environmental assurance audits for various Company mine sites, including Moolarben, MTW and Ashton; and</li> <li>considering the Company's updated Enterprise Risk Management approach.</li> </ul>	<p>Independent Non-Executive Directors:</p> <p>David Moulton – Chair</p> <p>Geoffrey Raby</p> <p>Non-Executive Directors:</p> <p>Fuqi Wang</p> <p>Executive Directors:</p> <p>Fucun Wang</p> <p>(minimum of three Directors)</p>
Nomination and Remuneration Committee	<p>The committee assists the Board of the Company by making recommendations in relation to:</p> <ul style="list-style-type: none"> <li>Board composition and succession planning for the Board;</li> <li>Director remuneration (subject to any shareholder approval that is required in accordance with the Constitution and the ASX Listing Rules) and remuneration arrangements for the Executive Committee and any other person nominated as such by the committee from time to time;</li> <li>the public reporting of remuneration for Directors and the Company's Executive Committee;</li> <li>the performance assessment of the Executive Committee;</li> <li>designing company policy and regulations with regard to corporate governance; and</li> <li>diversity.</li> </ul> <p>During the financial year ended 31 December 2019, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>consideration of re-election of Directors;</li> </ul>	<p>Independent Non-Executive Directors:</p> <p>Helen Gillies – Chair</p> <p>Gregory Fletcher</p> <p>David Moulton</p> <p>Non-Executive Directors:</p> <p>Xiangqian Wu</p> <p>Baocai Zhang</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>

	<ul style="list-style-type: none"> <li>• undertaking a review of the Company's organisational structure and composition of the Executive Committee;</li> <li>• review of the 2018 Corporate Governance Statement, including diversity and measurable objectives;</li> <li>• review of the amended Nomination and Remuneration Committee Charter; and</li> <li>• finalisation and endorsement of Company short-term and long-term incentive plans and Company salary indexation and performance assessment implementation.</li> </ul>	
Strategy and Development Committee	<p>The committee assists the Board in its oversight and review of the Company's strategic initiatives, including:</p> <ul style="list-style-type: none"> <li>• merger and acquisition proposals;</li> <li>• major capital markets transactions;</li> <li>• significant investment opportunities; and</li> <li>• proposals to dispose of significant Company assets.</li> </ul> <p>During the financial year ended 31 December 2019, work performed by the committee included:</p> <ul style="list-style-type: none"> <li>• consideration of capital management issues, including share consolidation, early debt repayment and dividend decisions;</li> <li>• evaluation of various acquisition opportunities and organic growth opportunities; and</li> <li>• review of Stakeholder Engagement Strategy and investor relations issue.</li> </ul>	<p>Independent Non-Executive Directors:</p> <p>Geoffrey Raby</p> <p>Non-Executive Directors:</p> <p>Baocai Zhang – Chair</p> <p>Qingchun Zhao</p> <p>Fuqi Wang</p> <p>Xing Feng</p> <p>(minimum of three Directors)</p>
Independent Board Committees	<p>An Independent Board Committee is established by the Board as and when required to manage any related party transactions.</p> <p>During the financial year ended 31 December 2019, a previously constituted Independent Board Committee passed certain written resolutions for the purposes of considering transactions between or involving the Company and its major shareholder, Yanzhou.</p>	<p>An Independent Board Committee is composed of independent Non-Executive Directors who do not have a material interest in the relevant transactions.</p>

The primary role of the Strategy and Development Committee is to assist the Board in its oversight and review of the Company's strategic initiatives. The other standing Board committees referred to above are discussed further below under Principle 4 (Audit and Risk Management Committee), Principle 7 (Health, Safety, Environment and Community Committee) and Principle 8 (Nomination and Remuneration Committee). The Charters of each of these standing Board committees are available within the Corporate Governance section of the Company's website.

The number of meetings held by the Board and each committee during 2019 and each member's attendance at these meetings is set out in the Directors' Report on page 17.

Other committees may be established by the Board as and when required.

Membership of the Board committees is based on the needs of the Company, relevant regulatory requirements, and the skills and experience of individual Directors.

**Director independence**

In determining the composition of the Board, the Company has regard to the balance of Executive and Non-Executive Directors to ensure that there is a strong independent presence on the Board to exercise independent judgement.

The Board comprises 11 Directors, of whom four hold their positions in an independent Non-Executive capacity (based on the *independence standard* disclosed below). The Company's current independent Directors are Geoffrey Raby, Gregory Fletcher, David Moulton and Helen Gillies.

The Board has assessed the independence of each of the Non-Executive Directors (including the Chairman) in light of their interests and relationships. A majority of the Board are not considered independent Directors having regard to their affiliation with the Company's major shareholder, Yanzhou, and accordingly the Company does not comply with Recommendation 2.4 of the ASX Recommendation. However, the Board considers that its composition appropriately represents the interests of its shareholders including its major shareholder, Yanzhou, and that the Board has put in place appropriate policies and procedures to guide the Board and senior Executives in circumstances where conflicts of interest may arise and in its dealings with Yanzhou, including establishing the Independent Board Committee referred to above.

To help ensure that any conflicts of interests are identified, the Company has put in place a standing agenda item at all meetings of the Board and its committees to provide the Directors with the opportunity of declaring any conflicts of interests in the subject matter of the proposed resolutions made within the meeting.

To assist the Board in making independent judgements, the Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice, at the Company's expense.

Each independent Director must regularly provide the Board with all information relevant to their continued compliance with the independence standard. The independence of Directors will be reviewed by the Board on a regular basis with assistance from the Nomination and Remuneration Committee. The Nomination and Remuneration Committee will also assist the Board with regular evaluation of the performance of the Board, Board committees and individual Directors.

The independent Non-Executive Directors have confirmed their independence in accordance with Rule 3.13 of the HK Listing Rules, and the Company has received from each of the independent Non-Executive Directors an annual confirmation on his/her independence as required under Rule 3.13 of the HK Listing Rules. Accordingly, the Company considers that the independent Non-Executive Directors continue to be independent.

### ***Independence Standard***

In assessing the independence of its Directors, the Board has regard to the factors relevant to assessing the independence of a Director that are set out in Box 2.3 of the ASX Recommendations (3<sup>rd</sup> edition) and Rule 3.13 of the HK Listing Rules. The criteria considered in assessing the independence of Non-Executive Directors are also set out in the Board Charter.

A Director is considered independent if the Director:

- is not, and has not within the last three years been, employed in an Executive capacity by the Company or any of its child entities;
- is not, nor has within the last three years been, a partner, Director or senior employee of a provider of material professional services to the Company or any of its child entities;
- is not, nor has within the last three years been, in a material business relationship with the Company or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is not a substantial Shareholder of the Company or an officer of, or otherwise associated with, a substantial Shareholder of the Company;
- does not have a material contractual relationship with the Company or any of its child entities other than as a Director;
- does not have close family ties with any person who falls within any of the categories described above;
- has not been a Director of the Company for such a period that his or her independence may have been compromised; and
- is free from any other interest, position, association or relationship that might interfere, or might reasonably be seen to interfere, with the Director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its shareholders generally.

The Company's Constitution provides that the Company's shareholders holding a majority of the issued shares of the Company (which confer the right to vote) may nominate a Director to the office of Chairman and may elect one or more Directors to the office of Vice Chair.

As a nominee of Yanzhou, Baocai Zhang, the Chairman is not considered independent by the independence standard (as above) and accordingly the Company does not comply with Recommendation 2.5 of the ASX Recommendation. However, the Board considers that this is an appropriate reflection of Yanzhou's majority shareholding in the Company. While a majority of the Directors are associated with Yanzhou this is considered appropriate in light of Yanzhou's major shareholding in the Company. The Board has put in place appropriate policies and procedures such as the Conflicts and Related Transactions Policy, the Majority Shareholder Protocol to manage any potential conflicts, while the Company's Constitution allows for the establishment of an Independent Board Committee consisting of Independent Non-Executive Directors if required.

#### **Board skills matrix**

The Board represents a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The table below sets out the skills and experience that are currently represented on the Board.

Skills and Experiences	Total
Mining / exploration and production	4
Engineering	4
Capital projects	10
Trading / marketing	4
Strategy	11
Leadership	11
Board / Committee experience	8
Corporate governance	7
Accounting / audit / risk management	7
Government / policy	9
Legal / regulatory	5
Health, safety and environment	6
Human resources	5
International business expertise	9

#### **Induction and professional development**

Upon appointment, Directors are provided with an information pack containing a letter of appointment setting out the Company's expectations, Directors' duties and the terms and conditions of their appointment, and other materials containing information about the Company including the Company's Constitution, charters and policies to support the induction of Directors to the Board.

Directors also participate in continuing education or development programs arranged for them, including for example training on Directors duties (including with respect to climate change risk), developments in HKEx corporate governance framework and developments in whistleblower regimes. The training was conducted by the Company's Hong Kong and Australian based legal advisors.

The Company Secretary supports Directors by providing access to information in appropriate form where requested.

#### **Principle 3: Act ethically and responsibly**

##### **Conduct and ethics**

The Board policy is that Directors, employees and contractors must observe both the letter and spirit of the law, and adhere to the highest standards of business conduct. The Company has adopted a formal Code of Conduct and other guidelines and policies which are approved by the Board that set out legal and ethical standards for the Company's Directors and employees, including a Conflicts of Interests and Related Party Transactions Policy.

The Code of Conduct and these other guidelines and policies guide the Directors, the CEO, senior Executives, and

employees generally as to the practices necessary to maintain confidence in the Company's integrity and as to the responsibility and accountability of individuals for reporting, and investigating reports of, unethical practices. The Code of Conduct and these other guidelines and policies also guide compliance with legal and other obligations to stakeholders.

Specifically, the objective of the Code of Conduct is to:

- provide a benchmark for professional behaviour;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

The key values underpinning the Code of Conduct are:

- our actions must be governed by the highest standards of integrity and fairness;
- our decisions must be made in accordance with the letter and spirit of applicable law; and
- our business must be conducted honestly and ethically, with our best skills and judgement, and for the benefit of customers, employees, shareholder and the Company alike.

The Code of Conduct is available in the Corporate Governance section of the Company's website.

#### ***Reporting concerns and whistleblower protection***

The Company's Whistleblower policy encourages any current or former employees or officers, contractors or suppliers (and their employees), associates or certain family members of an individual mentioned above to raise serious concerns of misconduct or an improper state of affairs or circumstances in relation to the Company and report any issues if they have reasonable grounds for suspecting so. The disclosure cannot solely be about a personal work-related grievance.

Individuals can report their concerns confidentially in writing or by phone to a confidential Speak Up facility, which is operated by an independent external party. Alternatively, disclosure may be made with our Whistleblower Officer, the Executive General Manager Risk & Audit, an officer or senior manager within the Company, the Company's auditor or if the disclosure concerns the Company's tax affairs or its associates, its registered tax agent or BAS agent, or an employee or officer at the Company who has functions or duties relating to its tax affairs.

All disclosures made under this policy will be treated seriously and may be the subject of a investigation with the objective of locating evidence that either substantiates or refutes the misconduct disclosed by a person. Such investigations will be facilitated in accordance with the steps and process detailed in the policy, subject to certain exceptions within the policy. The Audit and Risk Management Committee and the Board are informed at each meeting with a report on all active whistleblower matters, including information on the number and nature of disclosures made in the last quarter, the status of any investigations underway and the outcomes of any investigations completed and actions taken as a result of those investigations.

The Yancoal Whistleblower Policy is available in the Corporate Governance section of the Company's website.

#### **Principle 4: Safeguard integrity in corporate reporting**

##### ***Audit and Risk Management Committee***

The ARMC has the responsibility to review, oversee and report to the Board in relation to the preparation of the financial statements and accounts of the Company. The Board has established an Audit and Risk Management Committee, which plays a key role in helping the Board to oversee financial reporting, internal control structure, risk management systems and internal and external audit functions. The committee also enables the Board to maintain a transparent relationship with the Company's internal and external auditors.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management and auditors (internal and external) and to seek explanations and additional information. The committee meets at least four times per year, or as frequently as required. The Charter of the Audit and Risk Management Committee provides clear terms of reference and can be found in the Corporate Governance section of the Company's website. The purpose of the Audit and Risk Management Committee is outlined under the Board committees section above.

In accordance with its Charter, the Audit and Risk Management Committee has at least three members. The current

members of this committee are Gregory Fletcher (chair of the committee), Qingchun Zhao, David Moulton and Helen Gillies.

The committee consists only of Non-Executive Directors with a majority being independent. Consistent with the ASX Recommendations, the Chair of the committee is an independent Non-Executive Director and is not the Chairman of the Board. The qualifications, skills and experience of each member and the number of times the committee met throughout the period and the individual attendances of the committee members at those meetings is disclosed in the Information on Directors in the Directors' Report, on pages 10 - 17.

The Company has also employed a full time Executive General Manager of Risk and Audit ("EGM of Risk and Audit"). His role is described further under Principle 7.

#### **CEO and CFO certifications on financial reports**

The persons who performed a chief executive function and chief financial officer function for the Company have declared in writing to the Board that in respect of the half year ended 30 June 2019 and the full year ended 31 December 2019, in their opinion, the financial records of the Company have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

#### **External Auditor**

The Company's external auditor is ShineWing Australia. Consistent with the requirements of the *Corporations Act 2001* (Cth), ShineWing Australia has a policy of partner rotation every five years. The appointment, removal and remuneration (not including amounts paid for special or additional services provided by the auditor) of the auditor require shareholder approval.

The external auditor receives all papers and minutes of the Audit and Risk Management Committee. The external auditor also attends the Company's Annual General Meeting to answer questions from shareholders relevant to the Company's audit.

The statement of the external auditor, ShineWing Australia, about reporting responsibilities on the financial statements of the Group is set out under the heading "Independent Auditor's Report To the Members of Yancoal Australia Ltd" in this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

An analysis of remuneration (including details of the amounts paid or payable) to the auditor for audit and non-audit services provided during the financial year ended 31 December 2019 are set out in the Directors' Report on page 36.

#### **Principle 5: Make timely and balanced disclosure**

The Company recognises the importance of timely and adequate disclosure to the market, and is committed to making timely and balanced disclosure of all material matters and to effective communication with its shareholders and investors so as to give them ready access to balanced and understandable information. The Company also works together with its major shareholder, Yanzhou, to ensure that Yanzhou can comply with its disclosure obligations in relation to Company information, and vice versa, Yanzhou seeks to ensure that the Company can comply with its disclosure obligations in relation to Yanzhou's information.

The Board has put in place a Disclosure Policy to encapsulate the disclosure obligations under the *Corporations Act 2001* (Cth) and the ASX Listing Rules and to set out procedures for managing compliance with those obligations. These procedures provide a framework for managing the disclosure of material matters to the market to ensure accountability at Board and senior Executive level. As part of this framework, a standing agenda item at all the Company's Board and Executive Committee meetings requires the Directors and senior Executive to consider whether any matters at the meeting should be disclosed to the market. The Disclosure Policy can be found within the Corporate Governance section of the Company's website.

A Disclosure Committee has been established to assist the Company to meet its disclosure obligations. The Committee plays a key role in reviewing and determining whether information is likely to have a material effect on the price or value of the Company's securities such that it requires disclosure to the market. The Disclosure Committee members comprise the CEC, CEO, CFO, Company Secretary, Investor Relations General Manager and Group Counsel.

Any information disclosed to the market through an announcement to the ASX is also published on the Investor section of the Company's website.

## **Principle 6: Respect the rights of shareholders**

### ***Communications with shareholders***

The Company has an investor relations program that is aimed at facilitating two-way communications with investors. The Company's policy is to promote effective two-way communication with shareholders and other investors so that they understand how to assess relevant information about the Company and its corporate direction. The Company aims to keep shareholders, potential investors and other stakeholders informed of all major developments affecting the state of affairs of the Company. The Company facilitates the investor relations program by communicating information regularly to shareholders, potential investors and other stakeholders by:

- posting announcements on the ASX and HKEx platforms in accordance with its continuous disclosure obligations and also making these announcements available on the Company's website under the sections marked 'Corporate Governance', 'Media' and 'Boards and Committees';
- keeping its website up to date on important information about the Company, including its Constitution, Board and Board Committee Charters, core corporate governance policies and financial information about the Company; and
- publishing investor presentations made to analysts and making media briefings available within the Investor section of the Company's website.

The Board considers one of its key responsibilities to be communication with shareholders and, accordingly, the Company encourages shareholders to attend and participate in all general meetings including annual general meetings and will use a variety of technological solutions where appropriate to facilitate such participation of shareholders. This may include, for example, holding meetings across multiple venues linked by live telecommunications and hybrid meetings that allow shareholders to attend and vote in person, by proxy or online.

Shareholders are entitled to ask questions about the management of the Company and of the auditor as to its conduct of the audit and the preparation of its reports. Any shareholders who cannot attend any general meetings can also participate via lodgement of their proxies. In addition, shareholders have the option of receiving communications from and sending communications to the Company and the Company's principal and branch share registries, Computershare Investor Services Pty Limited and Computershare Hong Kong Investor Services Limited, electronically.

The Company's Shareholder Communication Policy can be found within the Corporate Governance section of the Company's website.

Paragraph 44 of the Hong Kong Joint Policy Statement Regarding the Listing of Overseas Companies, jointly issued by the Securities and Futures Commission of Hong Kong and HKEx in March 2007 and updated in April 2018, requires that members holding a minority stake in an overseas company must be allowed to convene an extraordinary general meeting and add resolutions to a meeting agenda. The minimum level of members' support required to convene a meeting must be no higher than 10%.

Under section 249D of the *Corporations Act 2001* (Cth), Shareholders with at least 5% of the votes that may be cast at a general meeting may request the Directors to call a general meeting or may convene a general meeting themselves at their own expense under section 249F of the *Corporations Act 2001* (Cth). Any such request must be in writing, must state any resolution to be proposed at the meeting, must be signed by the shareholder making the request and must be given to the Company.

Under section 249N of the *Corporations Act 2001* (Cth), Shareholders representing at least 5% of the total votes that may be cast on the resolution or at least 100 Shareholders who are entitled to vote at a general meeting may give the Company notice requiring resolutions to be put before a general meeting. The notice must be in writing, must set out the wording of the proposed resolution and must be signed by the shareholders proposing to move the resolution.

Apart from the general meetings, the Company's website is an effective means of communication with Shareholders. The Company is committed to facilitating the two-way communication with Shareholders, in particular, dealing with Shareholder enquiries (whether an institutional investor or a retail investor) and any Shareholders who have questions or comments on what the Company is doing are most welcome to contact the Company at any time through the website. Shareholders may raise enquiries to the Board by contacting the Group's General Manager Corporate Affairs, including at [shareholder@yancoal.com.au](mailto:shareholder@yancoal.com.au). Upon receipt of the enquiries, the General Manager Corporate Affairs will forward the Shareholders' enquiries and concerns to the Board, Board committees or the management as appropriate.

### ***Amendments to the Company's Constitution***

At a general meeting of Shareholders held on 31 May 2019, Shareholder approval to amend the Constitution was sought and obtained. The Constitution was amended by:

- a) replacing the reference to “40%” with “50%”;
- b) including the phrase “or 50% of the free cash flow (pre-Abnormal Items), whichever is higher” after the bracketed phrase “(pre-Abnormal Items)”; and
- c) inserting a sentence which defines “free cash flow” at the end of the paragraph,

in rule 4.1(a)(1), so that the rule reads:

(a) “Subject in each case to applicable laws, the ongoing cash needs of the business, the statutory and common law duties of the directors and the shareholders’ rights under rule 7.10, the directors may pay interim and/or final dividends, and must:

(1) subject to rule 4.1(a)(2), pay as interim and/or final dividends not less than (A) 50% of net profit after tax (pre-Abnormal Items); or (B) 50% of the free cash flow (pre-Abnormal Items), whichever is higher in each financial year; and

(2) if the directors determine that it is necessary in order to prudently manage the company’s financial position, pay as interim and/or final dividends not less than 25% of net profit after tax (pre-Abnormal Items) in any given financial year.

“Free cash flow” for the purpose of rule 4.1(a)(1) is the net cash inflow from operating activities less payments made for capital expenditure and exploration activities.”

#### **Principle 7: Recognise and manage risk**

##### ***Risk identification and management***

The Board, through the Audit and Risk Management Committee, is responsible for satisfying itself that a sound system of risk oversight and management exists and that internal controls are effective to enable it to assess the type and extent of relevant risks in its decision making.

In particular, the Board ensures that:

- the material strategic, operational, financial reporting and compliance risks are identified and evaluated; and
- risk management, control and reporting systems are in place to identify, assess, manage, monitor and report on these risks.

The role and membership of the Audit and Risk Management Committee are described under Principles 2 and 4.

The Company’s Audit and Risk Management Committee Charter can be found within the Corporate Governance section of the Company’s website. The number of times the committee met throughout the period and the individual attendances of the committee members at those meetings is disclosed in the Directors’ Report, on page 17.

The Board has requested the Company’s senior Executives and management to report to the Audit and Risk Management Committee and, where appropriate the Board, regarding the effective management of its material business risks.

In 2019, the Audit and Risk Management Committee had in place a framework to identify, assess, manage risks that are material to the business. This framework includes:

- implementation of a corporate risk management standard approved by the Audit and Risk Management Committee and Board;
- identification of material business risk by reference to a corporate risk register, approved by the Audit and Risk Management Committee and Board;
- formal risk identification activities being undertaken at both a functional level and at each of the Company’s mine sites;
- designated individuals across the business that have accountability for the implementation of risk management within their areas of responsibility;
- the EGM of Risk and Audit as a central resource available to assist with all risk management responsibilities, and to assist with any training/awareness or other related requirements; and

- internal procedures and plans for crisis management.

The Audit and Risk Management Committee receives periodic reports on the performance of the Company's enterprise risk management framework, as well as on the Company's key risk exposures to satisfy itself that it continues to be sound. An annual review of the risk management and internal control framework was conducted by the Audit and Risk Management Committee, on behalf of the Board, in 2019 that addressed areas for continuous improvement in line with the Australian / New Zealand standard for risk management. The framework was considered effective and adequate.

The EGM of Risk and Audit is responsible for establishing and managing the enterprise risk management framework, risk management system and practices. The company's formal risk identification activities are guided by the Australian / New Zealand standard for risk management and undertaken on a periodic basis; with Risk Identification and Analysis activities undertaken at a functional level, as well as at each of the Company's mine sites.

The responsibility for managing risks, risk controls or risk management action plans is embedded within the business and undertaken as part of everyday activities. Together with the CEC, the Board and the Audit and Risk Management Committee, the EGM of Risk and Audit is responsible for developing a risk matrix and framework and for implementing related risk-based assurance processes for the Company and its subsidiaries. The EGM of Risk and Audit annually reviews and confirms the continued effectiveness of the risk framework to the Audit and Risk Management Committee.

The Board recognises and acknowledges that, while risk management controls and systems can be effective in managing risks, they cannot eliminate all risks relevant to the Company achieving its objectives and cannot provide absolute assurance against material misstatement or loss.

#### **Risks associated with the Company**

The future operating performance of the Group may be affected by risks relating to the Company's business. Some of these risks are specific to the Company while others relate to economic conditions and the general industry and markets in which the Company operates.

The Company's risk management policies and procedures have been designed and implemented to identify, assess and manage any material exposure to risks relating to the Company's business, including economic, environmental and social sustainability risks. The Company undertakes regular monitoring and assessment of existing and emerging risks. Group material risks are assigned specific risk owners and risk treatment strategies which are recorded alongside applicable key controls and control effectiveness ratings to pro-actively manage the Company's exposure to such risks. Further details of how the Company manages certain economic, environmental and social sustainability risks are set out in the Management Discussion and Analysis Report on pages 39 - 53.

However, there can be no assurance that such risk mitigation strategies will protect the Company from these risks. Other risks are beyond the Company's control and cannot be mitigated. The occurrence of any such risks could adversely affect the Company's financial condition and performance. The risks listed below are not purported to be exhaustive and there is no assurance that the importance of different risks will not change or other risks will not emerge.

The table below identifies risks which are considered to be economic, environmental and/or social sustainability risks.

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Operations	✓	✓	✓
Health, safety and hazardous materials	✓	✓	✓
Business development	✓		
Funding	✓		
Adverse foreign exchange rate movements	✓		
Hedging through bank issued instruments	✓		
Coal prices and coal demand	✓		
Coal production	✓		

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Debt costs	√		
Taxation	√		
Accounting Standards	√		
Regulatory approvals	√		√
Estimates of Resources and Reserves and geology	√		
Take or pay liabilities	√		
Uncertainty in costs forecast	√		
NCIG and WICET debt	√		
Mine closure	√	√	√
Coal supply agreements	√		
Joint ventures and reliance on third parties	√		
Competition	√		
Title	√		
Native Title	√		√
Overlapping tenement	√		√
Enforcement and counterparty insolvency	√		
Coal royalties	√		
Climate change/carbon regulation	√	√	√
Environmental activism	√	√	√
Technological change	√	√	
Technology / cyber	√		
Key personnel	√		
Fraud or misconduct	√		√
Changes in government policy, regulation or legislation	√	√	
Environment and planning	√		
Litigation	√		√
Insurance	√		

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Exploration and development	√		
Transport and infrastructure	√		
Environment	√	√	√
Impairment	√		

### Operations

The Company's operations are subject to operating risks. These risks include (but are not limited to) industrial action, inappropriate mine design /plans, mine collapses, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to hazardous weather conditions, power interruption, insufficient water supply, critical equipment unavailability / failure (in particular any protracted breakdown or issues with any of the Company's CHPPs or a major excavator), damage to third party infrastructure, fires, and explosions from methane gas or coal dust, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or geotechnical mining conditions (particularly in the Company's underground operations).

Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, delays in deliveries, decreased coal production, increased cost / monetary losses, reduced revenue, and possible legal liability. Although the Company's insurance policies provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and these risks would not be fully covered by insurances maintained by the Company.

### Health, safety and hazardous materials

Accidents could occur at a mine site or corporate office that result in personal injuries. These could relate to factors such as (but not limited to) coal or gas bursts, vehicle interaction / motor vehicle accidents, exposures to energised plant or equipment and working at heights or in confined spaces. These could also have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted at all or on terms that are unduly onerous. If the Company is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

The Company's operations may substantially impact the environment or cause exposure to hazardous materials. It will use hazardous materials and will generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that it owns or operates. There is also a risk that actions could be brought against the Company, alleging adverse effects of such substances on personal health.

There is also a risk of business interruptions or increased absenteeism as a result of pandemics.

### Business development

An ineffective evaluation of investment opportunities and/or allocation of capital could result in a loss of company value, reduce shareholder returns, impairments and/or regulatory exposures. There is a risk that capital is not available to support the company's growth or strategy.

### Funding

The amount of future funding required by the Company will depend on a number of factors, including (but not limited to) the business activities, commitments and the overall performance of the Company's business at that time.

The Company's business operations and cash flow are highly sensitive to any fluctuation in the US\$ coal price, coal production from its operations, demand for its coal product and US\$ movement in foreign exchange rates, particularly movements in the A\$:US\$ exchange rate. In developing its business plan and operating budget, the Company has made

certain assumptions regarding coal prices, the A\$:US\$ exchange rate, future production levels, business development activities, the potential of Watagan being reconstituted, dividends and other factors which determine the Company's financial performance.

If a funding shortfall materialises, the Company may need to raise substantial additional debt or equity. The Company's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of its business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions (including continued support of thermal coal industry), equity market conditions, and future levels of Yanzhou support.

To the extent that the Company is not able to secure additional financing (whether debt or equity) on acceptable terms from third parties, the Company will continue to rely on financial support from Yanzhou.

As at 31 December 2019, the Company had a loan receivable from Watagan of A\$901 million (re-drawable up to A\$1.36 billion) which is subject to impairment testing. Yankuang Group Co. Ltd ("Yankuang"), the Group's ultimate parent company, guarantees payment of any amount owed to the Company under the loan if Watagan does not pay the Company such amount when due.

Yanzhou's and Yankuang's capacity to meet their respective funding commitments will depend on their financial position at the time and their capacity to raise the necessary funds to meet the commitments. Yancoal's capacity to source further funding from Yanzhou will depend on Yanzhou's willingness and financial capacity to provide that funding. There can be no assurance that Yanzhou will be in a position to provide financial support to Yancoal or that Yankuang will be in a position to meet its obligations under the guarantee in respect of the Watagan Agreements.

#### Adverse foreign exchange rate movements

Foreign exchange risk is the risk of the Company sustaining loss through adverse movements in exchange rates. Such losses can impact the Company's financial position and performance and the level of additional funding required to support the Company's businesses.

The liabilities, earnings and cash flows of the Company are influenced by movements in exchange rates, especially movements in the A\$:US\$ exchange rate.

While the Company operates entirely in Australia and its costs are primarily denominated in its functional currency, the A\$, foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US\$, procurement of imported plant and equipment, which can be priced in US\$ or other foreign currencies, and debt denominated in US\$.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts or other hedging instruments and the terms of these contracts.

#### Hedging through bank issued instruments

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Company hedges a portion of contracted US dollar sales and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

#### Coal prices and coal demand

The Company generates revenue from the sale of coal. In developing its business plan and operating budget, the Company makes certain assumptions regarding coal prices and demand for coal. The prices which the Company will receive for its coal depend on numerous market factors beyond its control and, accordingly, some underlying coal price assumptions relied on by the Company may materially change and actual coal prices and demand may differ materially from those expected.

The prices for coal are determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, technological changes, changes in production levels and events interfering with supply, changes in international freight rates or other transportation infrastructure and costs, the costs of other commodities and substitutes for coal, market changes in coal quality requirements, government regulations which restrict use of coal, and tax impositions on the resources industry, all of which are outside the control of the Company and may have a material adverse impact on coal prices and demand.

In addition, the coal price is highly dependent on the outlook for coal consumption in large Asian economies, such as

China, Japan and India, as well as any changes in government policy regarding coal or energy policy in those countries.

Absent offsetting factors, significant and sustained adverse movements in demand for coal and, consequently, coal prices (both generally and in relation to particular types and classes of coal) may have a material adverse impact on the ongoing financial performance and financial position of the Company or may result in the Company not proceeding with the development of new mines and projects due to such development not being economically viable.

Any weakening in coal prices or any deterioration prompted by further reduction in demand or addition of new tonnes to the seaborne market (for example from thermal coal exports from the US) would have a material adverse impact on the financial performance of the Company and its capacity to undertake development projects.

#### Coal production

Improvement in the Company's financial performance is dependent on the Company being able to sustain or increase coal production and decrease operating costs on a per tonne basis. The Company's success or failure in improving productivity will become particularly important to the Company's financial performance at times of low coal prices.

The Company's coal production can be impacted by a number of factors, including for example unforeseen geological or geotechnical issues (particularly in the Company's underground operations), changes or variations in coal quality or geological, hydrologic or other conditions, adverse weather including abnormal wet weather conditions, bushfire events, unforeseen delays or complexities in installing and operating mining longwall systems, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production.

#### Debt costs

The majority of the Company's loans are US\$ LIBOR based floating rate loans and currently there are no interest rate hedging arrangements in place. As a result, any increase in the US\$ LIBOR from current levels will expose the Company to higher debt costs.

#### Taxation

In addition to the corporate income tax imposed on the Company, the Company is required to pay government royalties, direct and indirect taxes and other imposts in the jurisdictions in which the Company will operate. The Company may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies under Australian laws.

The potential of the Company to obtain the benefit of existing tax losses and claim other tax attributes will depend on future circumstances and may be affected by changes in ownership of both Yanzhou and Yancoal, business activities, thin capitalisation thresholds, tax bases and any other conditions relating to the use of tax losses or other attributes of the group. The ability to use the Company's carried forward losses will depend on the Company's continued satisfaction of the loss recoupment tests under Australian tax laws and be subject to the availability of sufficient future taxable profits.

#### Accounting Standards

Australian Accounting Standards ("AAS") and International Financial Reporting Standards ("IFRS") are issued by the Australian Accounting Standards Board and International Accounting Standards Board respectively and are beyond the control of the Company and the Directors. Any changes to AAS, IFRS or to the interpretation of those standards may have an adverse effect on the reported financial performance or financial position of the Company.

In particular, the accounting treatment for transactions such as the transfer of the NSW mining assets of Ashton, Austar and Donaldson to Watagan in 2016 could be reviewed by standard setters and may be subject to change. In the event that the Company reconsolidates Watagan's results and financial position into its consolidated financial statements ahead of the scheduled date of bond maturity in 2025, due to a change to AAS, IFRS or their interpretation, the reconsolidation may have an adverse effect on the reported financial performance and financial position of the Company.

#### Regulatory approvals

The ability of the Company to meet its long term production target profile depends on (amongst other things) the Company being able to obtain on a timely basis, and maintain, all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws) for its current operations and expansion and growth projects, including obtaining planning approvals, land access, land owner consents and addressing any native title issues, impacts on the environment and objections from local communities.

The requirement to obtain approvals and to address potential and actual issues for existing and future mining projects is common to all companies in the coal sector. However, there is no assurance or guarantee that the Company will be in a position to secure any or all of the required consents, approvals and rights necessary to maintain its current production

profile from its existing operations or to develop its growth projects in a manner which will result in profitable mining operations and the achievement of its long term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, or if conditional or limited approvals are obtained, the economic viability of the relevant projects may be adversely affected, which may in turn result in the value of the relevant assets being impaired.

#### Estimates of Resources and Reserves and geology

The volume and quality of the coal that the Company recovers may be less than the Resource and Reserve estimates reported to date. Resource and Reserve estimates are expressions of judgment based on knowledge, experience and industry practice. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate. Resource and Reserve estimates are necessarily imprecise and depend to some extent on interpretations and geological assumptions, coal prices, cost assumptions, and statistical inferences which may ultimately prove to have been unreliable.

Coal Resource and Coal Reserve estimates are regularly revised based on actual production experience or new information and could therefore be expected to change. Furthermore, should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, Coal Resource and Coal Reserve estimates may have to be adjusted and mining plans, coal processing and infrastructure may have to be altered in a way that might adversely affect their operations. If it is determined that mining of certain Coal Reserves are uneconomic, this may lead to a reduction in the Company's aggregate Coal Reserve estimates.

Material changes in Coal Reserve estimates, grades, strip ratios, washing yields or recovery rates may affect the economic viability of projects. Coal Reserve estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations.

If the Company's actual Coal Resource and Coal Reserve estimates are less than current estimates, the Company's prospects, value, business, results of operations and financial condition may be materially adversely affected.

#### Take or pay liabilities

Port and rail (above rail and below rail) capacity is generally contracted via long-term take-or-pay contracts. The Company will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points.

#### Uncertainty in costs forecast

The business operations and financial condition of the Company may vary with fluctuations in production and capital costs. Changes in the costs of mining and processing operations as well as capital costs could occur, including as a result of inflation, business cycles or through unforeseen events, such as international and local economic and political events (including movement in exchange rates) or unexpected geological or mining conditions, and could have material adverse financial consequences for the Company.

#### NCIG and WICET debt

As a shipper in NCIG and WICET, the Company's source mines are required to maintain a minimum level of Marketable Coal Reserves (11 years' worth of contracted capacity). Non-compliance with this requirement would result in the termination of the individual contracts and require the Company to pay its share of any outstanding senior debt, amortised over the remaining 10 years of that particular contract. The Company's current share of the outstanding senior debt is approximately A\$900 million and A\$350 million, respectively.

#### Mine closure

Closure of any of the mines or other operations of the Company before the end of their mine life (e.g. due to environmental, geological, geotechnical, commercial and/or health and safety issues), could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life or placed on care and maintenance. A move to care and maintenance has the potential to trigger significant employee redundancy costs and a subsequent loss of revenues, as a minimal employee presence is required for ongoing management and rehabilitation of the mine.

If one or more of the relevant sites are closed earlier than anticipated, the Company will be required to fund the closure costs on an expedited basis and potentially lose revenues, which could have an adverse financial effect. In addition, there is a risk that closure planning is inadequate, costs have been underestimated and/or that claims may be made

arising from environmental remediation upon closure of one or more of the sites.

#### Coal supply agreements

The Company derives a significant portion of its revenue from a limited number of customers. The loss of, or a reduction in, sales to any of these customers as a result of for example geopolitical changes for or other market forces could materially and adversely affect its business, financial condition and results of operations.

The Company's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. Most of the Company's coal supply agreements also require the delivery of coal meeting specified quality thresholds for characteristics such as moisture content, sulphur content and ash content. To the extent that any contracted volumes cannot be delivered as agreed, the Company may be liable to pay substantial compensation for the resulting losses, costs and charges (including demurrage) incurred by the buyer.

Ineffective contract management could result in breach of contracts, financial losses, damage to reputation and litigation.

#### Joint ventures and reliance on third parties

The Company holds a number of joint venture interests, including interests in the Middlemount, Moolarben, HVO, Mount Thorley and Warkworth joint ventures, PWCS, NCIG and WICET, with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants. Under these agreements, certain decisions require the endorsement of third party joint venture participants and the Company relies on the co-operation of these third parties for the success of its current operations and/or the development of its growth projects and the transportation of increased production.

The Company cannot control the actions of third party joint venture participants, and therefore cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of the Company. There is a risk that the veto rights of, or consents required from, the joint venture partners will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy.

The Company also use contractors and other third parties for exploration, mining and other services generally, and is reliant on a number of third parties for the success of its current operations and for the development of its growth projects. While this is normal for the mining and exploration industry, problems caused by third parties may arise which may have an impact on the performance and operations of the Company. Any failure by counterparties to perform their obligations may have a material adverse effect on the Company and there can be no assurance that the Company will be successful in attempting to enforce its contractual rights through legal action.

#### Competition

The Company faces competition in all aspects of its business, including sales and marketing, pricing of coal, production capacity, coal quality and specifications, transportation capacity, cost structure and brand recognition. The Company's coal business competes in the domestic and international markets with other large domestic and international coal producers. An increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact the Company's ability to sell its coal products and the price to be attained for sales. Increased competition in the future, including from new competitors, may emerge. This competition may relate not only to coal produced and sold, but also to competition for the acquisition of new projects, which may adversely affect the ability of the Company to acquire new interests on acceptable terms should it wish to make such acquisitions.

Further industry consolidation could result in competitors improving their scale or productivity or competitors may develop lower-cost geological coal resources or develop resources in lower cost base geographies, increasing pressure on the Company's ability to maintain its margins.

There is significant competition within the resources industry in Australia, the United States and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Company. This pressure could adversely affect the Company's market share and financial performance and position.

The Company supplies coal as fuel to, among others, the thermal power generation industry and, as a result, is affected by the demand and growth of the thermal power industry. Thermal coal as a fuel source competes, among others, with natural gas, and the price of natural gas can therefore affect coal sales. The natural gas market has been volatile historically and prices in this market are subject to wide fluctuations in response to relatively minor changes in supply and demand. The thermal power generation industry is also affected by the development of alternative energy sources, climate change and global environmental factors.

#### Title

Exploring or mining for coal is generally illegal without a tenement granted by the State Governments. The grant and renewal of tenements is subject to a regulatory regime and each tenement is subject to certain conditions. There is no

certainty that an application for grant or renewal of a tenement will be granted at all or on satisfactory terms or within expected timeframes. Further, the conditions attached to tenements may change. The permitting rules are complex and may change over time, making the title holder's responsibility to comply with the applicable requirements more onerous, more costly or even impossible, thereby precluding or impairing continuing or future mining operations. There is a risk that the Company may lose title to any of its granted titles if it is unable to comply with conditions or if the land subject to the title is required for public purposes. There is also a risk that a tenement may not be granted from any applications for renewals of tenements or for new tenements.

Obtaining mining tenements often involves first obtaining consents from landholders and other third parties, some of which may in certain circumstances have a right of veto, as well as approvals (such as environmental approvals). There is a risk that the requisite consents and approvals may not be able to be obtained on time or on acceptable commercial terms, or may not be able to be obtained at all, and consequently have an adverse financial effect on the Company.

#### Native Title

It is possible that, in relation to tenements which we have an interest in or will in the future acquire, there may be areas over which legitimate native title rights of Aboriginal Australians may exist. Where the grant or renewal of a tenement is in respect of land in relation to which native title may exist, the Company will need to comply with the *Native Title Act 1993 (Cth)* in order for the tenement to be validly granted.

Compliance with the *Native Title Act 1993 (Cth)* (and the relevant native title process to be followed for the grant of the tenement e.g. the right to negotiate process) may be prolonged or delayed, and substantial compensation may be payable as part of any agreement reached, including for the extinguishment or impairment of the relevant native title rights and interests.

The existence or determination of native title may, therefore, affect the existing or future activities of the Company and impact on its ability to develop projects which may in turn impact its operational and financial performance.

Under the *Aboriginal Land Rights Act 1983 (NSW)*, Aboriginal Land Councils can claim crown land if certain requirements are met. If a claim is successful, freehold title over the relevant land is transferred to the claimant council. Further, Aboriginal Land Councils are afforded certain statutory rights which can include a requirement to enter into a compensation agreement prior to the grant of a Mining Lease. This may delay the grant of future mining tenements over any area of such land. Some of our tenements are located in areas that are subject to outstanding Aboriginal land claims, and additional Aboriginal land claims may be made in the future over other areas in which our tenements are located. Any such claims may result in our ability to explore or mine for coal in these areas being subject to the decisions of the relevant Aboriginal Land Councils, which may adversely affect our ability to develop projects and, consequently, our operational and financial performance.

#### Overlapping tenement

Some of the Company's mines and associated tenements adjoin or are overlapped by petroleum tenements and adjoin other exploration interests held by third parties. Overlapping tenements could potentially prevent, delay or increase the cost of the future development of the Company's projects because the Company and the relevant petroleum exploration licence or other exploration licence holders could potentially seek to undertake their respective activities on the overlapping area or the same resource seams and in some cases the overlapping petroleum tenure holder's consent may be required.

There is no guarantee that agreement will be reached with the overlapping petroleum tenement holder or that agreement will not be delayed or will be reached on terms satisfactory to the Company. There is also a risk that if agreement cannot be reached with overlapping tenement holders the matter may be referred to the relevant minister or a court who may make a decision which adversely impacts upon or prevents the project proposed by the Company.

#### Enforcement and counterparty insolvency

The Company has entered into contracts which are important to the future of its businesses including (but not limited to) for the provision of coal handling services, long term sales contracts, debt facilities, long term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

Any failure by counterparties to perform those contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

In addition, any insolvency of a counterparty to any of these contracts may have a material adverse effect on the Company and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action or recovering all monies owed by that counterparty (including under any claim for damages).

### Coal royalties

Royalties are payable to the NSW and QLD state governments on coal produced in NSW and QLD. In both states, the royalties are payable on an ad valorem basis as they are calculated as a percentage of the value for which the coal is sold. The relevant State Governments may increase these royalties or change their method of calculation. Any impost of new royalty related state tax or increase in royalty rates may have an adverse effect on the Company's financial position and/or financial performance.

### Climate change/carbon regulation

Yancoal acknowledges that it has a role to play in mitigating the emissions generated by its operations and supporting research into low-emission technology to assist the reduction of downstream emissions from the consumption of coal products.

In November 2014, an agreement was announced between the United States and China to cut greenhouse gas emissions by more than 25% below 2005 levels by 2025. This agreement was followed by the 2015 United Nations Climate Change Conference, and the signing of the Paris Agreement within the United Nations Framework Convention on Climate Change. The Paris Agreement was signed by representatives from 195 countries, and aims to hold back the increase in global temperatures, increase the ability of countries to adapt to the adverse impacts of climate change and provide channels to finance projects that lead to greenhouse gas reductions.

The Company is also subject to a spectrum of climate-related risks. These include physical and non-physical impacts with the potential to affect the Company's future development, operations, markets and asset carrying values. Factors include (but are not limited to) extreme weather events, fires, access to water, power supply and the regulatory response to the risk of climate change. Unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices, the future supply of coal and the competitiveness of the Company's products in the world energy market. Extensive government regulations relating to climate change impose costs on the mining operations of the Company, and future regulations could increase those costs, limit the Company's ability to produce and sell coal, or reduce demand for the Company's coal products. In recent years, China has also taken steps to address severe air pollution in many Chinese cities by adopting a range of policies to lower carbon emissions and reduce coal usage.

Additional details relating to climate change risks will be provided in the Company's ESG report as published later in the year.

### Environmental activism

The Company recognises the growing interest by stakeholders regarding the potential risks and opportunities posed to our business and the broader sector as a result of an anticipated global shift towards a lower-carbon economy. Increased community concern and adverse actions taken by community and environmental groups may delay or prevent the Company from progressing new mine developments or development or expansion of existing mines, or may mean that those mines are subject to conditions that adversely affect their profitability and consequently the financial performance of the Company. Environmental lobby groups in both QLD and NSW have previously made submissions opposing both operation and expansion of coal mines in an attempt to prevent new mine developments or expansion of existing mines on the basis of environmental concerns.

### Technological change

Thermal coal as a source of energy competes with other forms of electricity generation (such as hydro, solar and wind). In recent years, the global shift from conventional fuels to renewable sources of energy has created greater competition for thermal coal in the market which could lead to a structural decline in thermal coal demand.

As renewable technologies become more efficient and cost effective, they may gain an economic advantage over coal-fired and other fossil fuel-based electricity generation. These economic factors, combined with increasing costs to comply with emission limits for other air pollutants, may result in the continued retirement of existing coal-powered generation capacity, and the cancellation of planned additional coal-fired power capacity, which may reduce demand for thermal coal in the market.

There is also a risk of the Company not keeping up with technology advancements which could affect its future competitiveness.

### Technology / cyber

The Company's business relies on the performance, reliability and availability of its information technology systems including (custom) software. Information and operating technology may be subject to international cyber security threats. Breaches could result in (but are not limited to) safety exposures, the loss of sensitive data / information, unplanned outage of business-critical system, environmental damage and misappropriation of company funds. The Company's information technology infrastructure in general may also be adversely affected by factors such as server damage,

equipment faults, power failure, computer viruses, misuse by employees or contractors, telecommunications failures, external malicious intervention such as hacking, terrorism, fire, natural disasters, or weather interventions. Such events are largely beyond the Company's control, and may affect its ability to carry on our operations efficiently.

#### Key personnel

A number of key personnel are important to attaining the business goals of the Company. One or more of these key employees could leave their employment or cease to actively participate in the management of the Company and this may adversely affect the ability of the Company to conduct its business and, accordingly, affect its financial performance and its share price. There may be a limited number of persons with the requisite experience and skills to serve in the Company's senior management positions if existing management leave the Company. If the Company cannot attract, train and retain qualified managers, and other personnel, the Company may be unable to successfully manage its growth or otherwise compete effectively in the Australian coal industry.

The Company is also dependent on attracting qualified technical employees to provide services in relation to certain of its coal and other mining operations. Coal mining is a labour-intensive industry. The Company's future success will depend greatly on its and its mining contractors' continued ability to attract and retain skilled and qualified personnel on economic terms.

#### Fraud and misconduct

Any fraud, misrepresentation, money laundering or other misconduct by the Company's employees, customers, service providers, business partners or other third parties could result in violations of relevant laws and regulations by the Company and subject the Company to corresponding regulatory sanctions. These unlawful activities and other misconduct may have occurred in the past and may occur in the future, and may result in civil and criminal liability under increasingly stringent laws or cause serious reputational or financial harm to the Company. The Company may not be able to timely detect or prevent such activities, which could subject the Company to regulatory investigations and criminal and civil liability, harm our reputation and have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### Changes in government policy, regulation or legislation

The Company is subject to extensive legislation, regulations and supervision by a number of federal and state regulatory organisations.

Any future legislation and regulatory change may affect the resources industry and may adversely affect the Company's financial performance and position, such as future laws that may limit the emission of greenhouse gases or the use of coal in power generation.

#### Environment and planning

In recent years, state government policies of NSW and QLD have been introduced in the interests of protecting agricultural and urban land from the effects of mining. These include the QLD Government's Central Queensland Plan and Regional Planning Interests Act and the NSW Government's Strategic Regional Land Use Policy, Aquifer Interference Policy, and 2013 amendments to the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007. Each of these policies is relevant to the areas in which the Company has mining operations. Accordingly, there is no assurance that the future development and exploration activities of the Company will result in profitable or commercially viable mining operations in these areas.

In 2013, the NSW State Government introduced the fit and proper person consideration in making decisions about mining rights including the grant, transfer, renewal, cancellation and suspension of such rights. This allows the Government to consider a miner's conduct (in particular its compliance with environmental and mining legislation), as well as a miner's financial capabilities and technical expertise. In recent years, the NSW State Government has also significantly increased the maximum penalties for breaches of mining and environmental legislation, and the resources of regulators to investigate possible breaches and prosecute mining companies. These changes have resulted in the updating of compliance programs, and increased the risk of prosecution for breaches of relevant legislation.

In 2018, the QLD State Government revised the process by which mining companies are required to calculate and provide security for their rehabilitation liability. Over the next 3 years, companies are being required to transition to a risk-based security mechanism whereby operations assessed as being higher risk will be required to provide a greater amount of security. Further, mines in both NSW and Queensland are being held to a more rigorous progressive rehabilitation and mine closure regime.

#### Litigation

Like all companies in the resources sector, the Company is exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position of the relevant entity. The

Company could become exposed to claims or litigation by persons alleging they are owed fees or other contractual entitlements, employees, regulators, competitors or other third parties. Such claims or proceedings could divert our management's time and attention and consume financial resources in their defence or prosecution.

#### Insurance

The Company has insurance coverage for certain operating risks. However, it may become subject to liability (including in relation to pollution, occupational illnesses or other hazards), or suffer loss resulting from business interruption, for which it is not insured (or has not sufficiently insured) or cannot insure, including liabilities in respect of past activities.

Should a major uninsured loss be suffered, future financial performance could be materially adversely affected. In addition, insurance may not be available or continue to be available at economically acceptable premiums. As a result, the insurance coverage may not cover the scope and extent of claims against the Company or losses it may incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability, war, terrorism, major equipment and business interruption.

To the extent a successful claim against the Company proceeds, it may have a material adverse effect on its financial position.

#### Exploration and development

The Company's existing coal reserves will decline as mining continues. Therefore, the Company's growth and long-term success will depend on its ability to acquire additional coal resources within its exploration areas and to convert such coal resources into economically recoverable coal reserves.

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect operations, production, cash flow and financial performance of the Company.

Development and exploration activities may be affected by factors beyond the control of the Company, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a coal deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, land ownership, coal prices and recovery rates all being key factors in determining commercial viability.

Issues that arise during development, construction and mine start-up may result in increased costs, delayed commencement of coal production, delayed receipt of coal revenue or coal production not commencing at all. These problems may include delays in obtaining approvals (including land use approvals) or in the construction of mine infrastructure. There are many milestones which need to be met in a timely fashion for production to commence on any projects currently in the pre-development or development stages.

The Company may also be exposed to risks including risks of default associated with managing contractual relationships with participants in any of the development or exploration joint ventures or other contractual relationships to which it is, or may become, a party.

#### Transport and infrastructure

Coal produced from the Company's mining operations is transported to customers by a combination of road, rail and sea. Fluctuations in transportation costs and disruptions to our railway and port linkages could disrupt the Company's coal deliveries and adversely affect its business, financial condition and results of operations.

A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to) weather related problems, key equipment and infrastructure failures, rail or port capacity constraints, congestions and inter-system losses, industrial action, failure to obtain consents from third parties for access to rail or land, failure or delay in the construction of new rail or port capacity, failure to meet contractual requirements, terrorist attacks, breach of regulatory framework, mismatch of rail and port capacity or the possible sale of infrastructure. Each of these factors could impair the Company's ability to supply coal to customers and/or increase costs, and consequently may have a material adverse effect on the Company's financial position.

Significant increases in transport costs (such as emissions control requirements and fluctuations in the price of diesel fuel and demurrage) could make the Company's coal less competitive when compared to other fuels or coal produced from other regions.

## Environment

Due to the nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all operations of the Company are subject to stringent environmental laws and regulations.

There is a risk that past, present or future operations have not met or will not meet environmental or related regulatory requirements and/or that the approvals or modifications the Company is currently seeking, or may need to seek in the future, will not be granted. If the Company is unsuccessful in these efforts or otherwise breaches these environmental requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

Extensive environmental regulations in Australia, and in other countries that could affect the Company's business, may impose costs on its mining operations, and future regulations could increase those costs, limit its ability to produce and sell coal, or reduce demand for the Company's our coal products. In particular, the regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market in the medium to long term.

Changes in and future environmental regulations could increase the standards and costs of compliance, and adversely affect the Company's ability to generate the expected economic returns from its mining assets over their useful lives. The Company may not always be able to comply with future laws and regulations in relation to environmental protection economically or at all. There can be no assurance that the Company will be able to fully and economically utilise the entire coal resources of the mines it operates currently or in the future or that some of its mining assets will not become "stranded assets" that are not able to generate the expected economic returns over their useful lives.

Environmental legislation may change in a manner that may require compliance with additional standards, and a heightened degree of responsibility for companies and their Directors and employees. There may also be unforeseen environmental liabilities resulting from coal related activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential abandonment costs and obligations for which the Company may become liable as a result of its activities may be impossible to assess under the current legal framework.

## Impairment

The Company's balance sheet includes a number of assets that are subject to impairment risk, including mining tenements, exploration and evaluation assets, goodwill, the Middlemount loan and royalty receivable, the Watagan loan receivable and investments accounted for using the equity method.

The value of these assets is derived from the fundamental valuation of the underlying mining operations and as such is subject to many of the risks including, but not limited to, coal price and demand, foreign exchange, coal production, estimates of reserves and resources, uncertainty in costs forecasts, operating risks, injury and mine closure.

Adverse changes in these risk factors could lead to a reduction in the valuation of the Company's assets and result in an impairment charge being recognised.

## ***Internal audit function***

The internal audit function is managed by the EGM of Risk and Audit. That person has direct access to the Chair of the Audit and Risk Management Committee, as well as to the CEC, to whom he directly reports. The CEC and the Audit and Risk Management Committee recommends to the Board the appointment of the EGM of Risk and Audit.

The EGM of Risk and Audit has unfettered access to the Audit and Risk Management Committee and its Chair to seek information and explanations. The Chair of the Audit and Risk Management Committee meets independently with the EGM of Risk and Audit.

The role of the EGM of Risk and Audit includes achievement of the internal audit objectives, risk management policies and insurance strategy.

An annual program for internal audit and risk assurance is provided to the Audit and Risk Management Committee for approval. The annual Internal Audit program is focused on key operating risks and processes control design and operating effectiveness.

The program includes a review of compliance with the obligations imposed by the General Rules on Internal Control for Enterprises and the Supporting Guidelines of Internal Control for Enterprises, jointly issued by five Chinese ministries.

Periodical status reports on the execution of the plan, including current findings and actions are provided to the Audit and Risk Management Committee. This includes key issues and subsequently corrective actions are monitored, reviewed and reported. Any material findings are reported to the Board.

### **Health, Safety and Environment Compliance**

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has a Health, Safety and Environment Policy in place since May 2016 which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety, Environment and Community Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, this committee has a minimum of at least three members. The current members of this committee are David Moulton (Chair of the committee), Geoffrey Raby, Fuqi Wang and Fucun Wang. It is intended the committee meets at least four times per year, or as frequently as required. The committee meetings are held at one of the Company's mine sites, whenever possible, to receive feedback from the health, safety and environment forum held at the mine site and to address any mine specific health, safety and environment issues.

### **Principle 8: Remunerate fairly and responsibly**

#### **Nomination and Remuneration Committee**

The Board has established a Nomination and Remuneration Committee. In accordance with its charter, this committee currently has 5 members, Helen Gillies (Chair of the committee), Xiangqian Wu, Gregory Fletcher, Baocai Zhang and David Moulton. Three of the members of the committee, including the Chair of the committee, are independent Directors of the Company, in line with the ASX Recommendations. The Nomination and Remuneration Committee Charter can be found within the Corporate Governance section of the Company's website.

The committee makes recommendations to the Board to achieve Company remuneration structures that are equitable and aligned with the long-term interests of the Company and its shareholders, to attract and retain skilled employees, to structure short and long term incentives that are challenging and linked to creation of sustainable returns and to ensure any termination benefits are justifiable and appropriate.

In 2018, the committee engaged consulting firm Aon Hewitt ("Aon") to provide independent market benchmarking and recommendations with respect to the remuneration of Yancoal Executives and Non-Executive Directors. The Board adopted the recommendations in May 2018. Given this review in 2018 and the subsequent implementation of remuneration recommendations, no further changes to the remuneration framework for Executives or Non-executive Directors was made in 2019.

The committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external advisers. It is intended that the committee will meet at least once per year, or as frequently as required.

The number of times the committee met throughout the period and the individual attendances of the committee members at those meetings is disclosed in the Directors' Report, on page 17.

#### **Remuneration of Non-Executive Directors**

The Constitution provides that the Non-Executive Directors are entitled to such remuneration as approved by the Company's shareholders in accordance with the Constitution, which must not exceed the aggregate annual amount as determined by the Company in general meeting or by its major shareholder, Yanzhou.

Remuneration for Non-Executive Directors is capped at an aggregate amount for each financial year of \$3.5 million. Non-Executive Directors may also be paid such additional or special remuneration as the Directors decide is appropriate where a Non-Executive Director performs extra services or makes special exertions for the benefit of the Company. Such additional remuneration will not form part of the calculation of the aggregate cap on Non-Executive Directors' remuneration for a financial year and do not require shareholder approval. No Director is involved in determining his or her own remuneration.

Further details of the remuneration of the Non-Executive Directors, Executive Directors and senior Executives can be found in the Remuneration Report on pages 18 to 35.

#### **Dealings in Company securities**

By law, and under the Company's Insider Trading Policy, dealing in Company securities is subject to the overriding prohibition on trading while in possession of inside information.

In addition, the Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by Directors, senior Executives and other relevant employees, as well as their closely related parties, during specified blackout periods each year. General employees are permitted to deal in Company securities outside these blackout periods, however additional approval requirements apply to Directors, the CEO and the CFO. The Share Trading Policy

precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions on dealing under such plans. There are also restrictions that apply to relevant employees from entering into margin lending arrangements and short-term trading of the Company's securities. Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

The Company's share trading policy was revised in October 2018 with the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the HK Listing Rules to regulate the Directors' securities transactions, which is also applicable to its employees who are likely to be in possession of unpublished inside information. Such policy was subsequently amended in December 2019.

Specific enquiry has been made of all the Directors and they have each confirmed that they have complied with the Company's share trading policy and insider trading policy (which is more stringent than the Model Code) for the period 1 January 2019 to 31 December 2019.

Copies of the Company's Share Trading Policy and Insider Trading Policy are available on the Corporate Governance section of the Company's website.

This Corporate Governance Statement has been approved by the Board and is current as at 28 February 2020.

**Yancoal Australia Ltd**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2019**

	Notes	31 December 2019 \$M	31 December 2018 \$M
<b>Revenue</b>	B2	4,460	4,850
Other income	B3	101	150
Changes in inventories of finished goods and work in progress		39	31
Raw materials and consumables used		(707)	(669)
Employee benefits	B4	(525)	(518)
Depreciation and amortisation		(607)	(523)
Transportation		(562)	(537)
Contractual services and plant hire		(388)	(418)
Government royalties		(310)	(347)
Coal purchases		(332)	(332)
Other operating expenses	B5	(145)	(278)
Finance costs	B5	(233)	(293)
Share of profit of equity-accounted investees, net of tax	E2	(24)	56
<b>Profit before income tax</b>		<b>767</b>	<b>1,172</b>
Income tax expense	B6	(48)	(320)
<b>Profit after income tax</b>		<b>719</b>	<b>852</b>
Profit is attributable to:			
Owners of Yancoal Australia		719	852
Non-controlling interests		-	-
		<b>719</b>	<b>852</b>
 <b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges:			
Fair value losses	D7	(15)	(443)
Fair value losses transferred to profit and loss	D7	190	160
Deferred income tax (expense) / benefit	D7	(53)	85
<b>Other comprehensive income, net of tax</b>		<b>122</b>	<b>(198)</b>
<b>Total comprehensive income</b>		<b>841</b>	<b>654</b>
 Total comprehensive income for the year is attributable to:			
Owners of Yancoal Australia Ltd		841	654
Non-controlling interests		-	-
		<b>841</b>	<b>654</b>
 <b>Profit per share attributable to the ordinary equity holders of the Company:</b>			
Basic profit per share (cents per share)	B7	54.5	67.6
Diluted profit per share (cents per share)	B7	54.4	67.6

*These financial statements should be read in conjunction with the accompanying notes.*

**Yancoal Australia Ltd**  
**Consolidated balance sheet**  
**As at 31 December 2019**

	Notes	31 December 2019 \$M	31 December 2018 \$M (restated)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C7	962	1,031
Trade and other receivables	C8	453	552
Inventories	C9	261	226
Royalty receivable	C10	21	28
Derivative financial instruments	D3	1	-
Non-contingent royalty receivable	D3	4	7
Asset classified as held for sale	C13	45	57
Other current assets		26	21
<b>Total current assets</b>		<b>1,773</b>	<b>1,922</b>
<b>Non-current assets</b>			
Trade and other receivables	C8	282	292
Property, plant and equipment	C1	2,940	2,939
Mining tenements	C2	4,047	4,218
Exploration and evaluation assets	C4	555	563
Intangible assets	C5	97	97
Deferred tax assets	B6	-	33
Interest-bearing loan to associate	D1	901	835
Royalty receivable	C10	205	165
Non-contingent royalty receivable	D3	4	8
Investments accounted for using the equity method	E2	273	307
Other non-current assets		16	-
<b>Total non-current assets</b>		<b>9,320</b>	<b>9,457</b>
<b>Total assets</b>		<b>11,093</b>	<b>11,379</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	C11	802	840
Interest-bearing liabilities	D2	1,267	13
Current tax liabilities		-	1
Provisions	C12	30	34
Non-contingent royalty payable	D3	13	25
<b>Total current liabilities</b>		<b>2,112</b>	<b>913</b>
<b>Non-current liabilities</b>			
Trade and other payables	C11	4	-
Interest-bearing liabilities	D2	2,231	4,111
Deferred tax liabilities	B6	11	-
Provisions	C12	558	488
Non-contingent royalty payable	D3	14	27
Deferred income		-	2
<b>Total non-current liabilities</b>		<b>2,818</b>	<b>4,628</b>
<b>Total liabilities</b>		<b>4,930</b>	<b>5,541</b>
<b>Net assets</b>		<b>6,163</b>	<b>5,838</b>
<b>EQUITY</b>			
Contributed equity	D4	6,482	6,482
Reserves	D7	(484)	(604)
Retained earnings / (accumulated losses)		163	(42)
Capital and reserves attributable to owners of Yancoal Australia Ltd		<b>6,161</b>	<b>5,836</b>
Non-controlling interests		2	2
<b>Total equity</b>		<b>6,163</b>	<b>5,838</b>

*These financial statements should be read in conjunction with the accompanying notes.*

Yancoal Australia Ltd  
Consolidated statement of changes in equity  
For the year ended 31 December 2019

Attributable to owners of Yancoal Australia Ltd						
Notes	Contributed equity \$M	Reserves \$M	Retained earnings / (accumulated losses) \$M	Total \$M	Non-con- trolling interests \$M	Total equity \$M
<b>Balance at 1 January 2018</b>	6,217	(413)	(781)	5,023	3	5,026
Opening balance adjustment on adoption of AASB 9	-	-	17	17	-	17
<b>Balance at 1 January 2018</b>	<b>6,217</b>	<b>(413)</b>	<b>(764)</b>	<b>5,040</b>	<b>3</b>	<b>5,043</b>
Profit after income tax	-	-	852	852	-	852
Other comprehensive expense	-	(198)	-	(198)	-	(198)
<b>Total comprehensive income</b>	<b>-</b>	<b>(198)</b>	<b>852</b>	<b>654</b>	<b>-</b>	<b>654</b>
<b>Transactions with owners in their capacity as owners:</b>						
Issuance of new ordinary shares	266	-	-	266	-	266
Dividends paid	-	-	(130)	(130)	-	(130)
Subordinated capital notes redeemed on conversion	(1)	-	-	(1)	-	(1)
Movements in other reserves	-	7	-	7	-	7
Acquisition of minority interest	-	-	-	-	(1)	(1)
	265	7	(130)	142	(1)	141
<b>Balance at 31 December 2018</b>	<b>6,482</b>	<b>(604)</b>	<b>(42)</b>	<b>5,836</b>	<b>2</b>	<b>5,838</b>
<b>Balance at 1 January 2019</b>	6,482	(604)	(42)	5,836	2	5,838
Profit after income tax	-	-	719	719	-	719
Other comprehensive income	-	122	-	122	-	122
<b>Total comprehensive income</b>	<b>-</b>	<b>122</b>	<b>719</b>	<b>841</b>	<b>-</b>	<b>841</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid	-	-	(514)	(514)	-	(514)
Movements in other reserves	-	(2)	-	(2)	-	(2)
	-	(2)	(514)	(516)	-	(516)
<b>Balance at 31 December 2019</b>	<b>6,482</b>	<b>(484)</b>	<b>163</b>	<b>6,161</b>	<b>2</b>	<b>6,163</b>

*These financial statements should be read in conjunction with the accompanying notes.*

**Yancoal Australia Ltd**  
**Consolidated statement of cash flows**  
**For the year ended 31 December 2019**

	Notes	31 December 2019 \$M	31 December 2018 \$M
<b>Cash flows from operating activities</b>			
Receipts from customers		4,651	4,847
Payments to suppliers and employees		(2,950)	(2,896)
Interest paid		(231)	(236)
Interest received		91	96
Transaction costs paid		(9)	(34)
Stamp duty paid		(4)	(30)
<b>Net cash inflow from operating activities</b>	F3	<b>1,548</b>	<b>1,747</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(282)	(194)
Payments for capitalised exploration and evaluation activities		(3)	(4)
Proceeds from sale of property, plant and equipment		15	5
Receipts of non-contingent royalties		8	75
Payment of non-contingent royalties		(28)	(119)
Payments for acquisition of interest in joint ventures and subsidiaries (net of cash acquired)	E1	(42)	(353)
Proceeds from disposal of interest in joint venture and subsidiaries (net of cash disposed)		-	524
Repayment of loan from joint venture		21	117
Advances of borrowing from joint venture		(25)	-
Repayment of borrowings from associates		227	254
Advance of borrowings to associates		(293)	(377)
Dividends received		10	17
<b>Net cash outflow from investing activities</b>		<b>(392)</b>	<b>(55)</b>
<b>Cash flows from financing activities</b>			
Repayment of interest bearing liabilities		(349)	(1,250)
Proceeds from interest-bearing liabilities		-	411
Repayment of interest bearing liabilities - related entities		(349)	(175)
Receipts from promissory note		40	-
Payment of lease liabilities		(37)	(20)
Proceeds from issues of shares and other equity securities	D4	-	268
Transaction costs paid		-	(2)
Dividends paid		(514)	(130)
Payment for treasury shares		-	(6)
<b>Net cash outflow from financing activities</b>		<b>(1,209)</b>	<b>(904)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(53)</b>	<b>788</b>
Cash and cash equivalents at the beginning of the financial year		1,031	207
Effects of exchange rate changes on cash and cash equivalents		(16)	36
<b>Cash and cash equivalents at the end of the year</b>	C7	<b>962</b>	<b>1,031</b>

*These financial statements should be read in conjunction with the accompanying notes.*

## Notes to the consolidated financial statements index

		Page
A	Basis of Preparation	99
B	Performance	101
B1	Segment information	101
B2	Revenue	104
B3	Other income	107
B4	Employee benefits	108
B5	Expenses	109
B6	Taxation	110
B7	Earnings per share	114
C	Operating Assets and Liabilities	115
C1	Property, plant and equipment	115
C2	Mining tenements	118
C3	Impairment of long life assets	119
C4	Exploration and evaluation assets	123
C5	Intangibles	124
C6	Leases	125
C7	Cash and cash equivalents	127
C8	Trade and other receivables	128
C9	Inventories	129
C10	Royalty receivable	130
C11	Trade and other payables	131
C12	Provisions	132
C13	Asset classified as held for sale	134
D	Capital Structure and Financing	134
D1	Interest-bearing loan to associate	135
D2	Interest-bearing liabilities	136
D3	Non-contingent royalty	139
D4	Contributed equity	140
D5	Share-based payments	142
D6	Dividends	144
D7	Reserves	145
D8	Contingencies	147
D9	Financial risk management	148
E	Group Structure	158
E1	Business combinations and disposals	158
E2	Interests in other entities	159
E3	Related party transactions	169
E4	Parent entity financial information	173
E5	Controlling interests	174
E6	Deed of cross guarantee	177
F	Other Information	180
F1	Commitments	180
F2	Remuneration of auditors	180
F3	Reconciliation of profit after income tax to net cash inflow from operating activities	181
F4	Historical information	182
F5	Events occurring after the reporting period	182
F6	Other significant accounting policies	182
F7	New and amended standards adopted by the Group	189
F8	New accounting standards and interpretations	193

## **A Basis of Preparation**

These consolidated financial statements and notes are for the consolidated entity consisting of Yancoal Australia Ltd ("Company" or "parent entity") and its subsidiaries ("the Group").

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Yancoal Australia Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue in accordance with a resolution of the Directors on 28 February 2020.

### *(i) Compliance with IFRS*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### *(ii) Subsidiaries*

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

### *(iii) Significant accounting policies*

Significant accounting policies have been included in the relevant notes to which the policies relate, and other significant accounting policies are discussed in Note F6. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *(iv) Historical cost convention*

These financial statements have been prepared on an accrual basis and under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### *(v) Restated deferred tax comparative figures*

As required by the accounting standards deferred tax assets and liabilities shall be offset when an entity has a legally enforceable right to offset tax liabilities and assets. The Group has offset deferred tax asset and liabilities as at 1 January 2019 and restated the comparative balances as at 31 December 2018. The restatement at 31 December 2018 has resulted in deferred tax liabilities of \$1,029 million being offset against deferred tax assets of \$1,062 million resulting in a net deferred tax asset balance of \$33 million. This has reduced both the non-current asset and non-current liability balances by \$1,029 million. There has been no adjustment to the Group's net asset position as at 31 December 2018 or to the profit or loss for the period ending 31 December 2018.

### *(vi) Auditor sign-off - unqualified and unmodified*

The independent auditor's report of these consolidated financial statements is unqualified and unmodified.

## A Basis of Preparation (continued)

### *(vii) Rounding of amounts*

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that legislative instrument to the nearest million dollars, or in certain cases, the nearest dollar.

### *(viii) New and amended standards adopted by the Group*

Effective from 1 January 2019 the Group adopted new standards including AASB 16 *Leases*. Refer to Note F7 for details.

### *(ix) Impact of standards issued but not yet applied by the Group*

Australian Accounting Standards and Interpretations issued but not yet applicable for the year ended 31 December 2019 that have not been applied by the Group are disclosed in Note F8.

### *(x) Early adoption of standards*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out in Note F8.

### *(xi) Critical accounting estimates and judgements*

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that involve a higher degree of judgement or complexity. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The Directors evaluate estimates and judgements incorporated into these financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Details of critical accounting estimates and judgements can be found in the notes to which they relate and include:

Taxation	Note B6
Mining tenements	Note C2
Impairment of assets	Note C3
Exploration and evaluation assets	Note C4
Royalty receivable	Note C9
Provisions	Note C11
Interest bearing loan to associate (impairment)	Note D1
Business combinations and disposals	Note E1
Interest in other entities (Control of Watagan, impairment)	Note E2

### *(xii) Current net asset deficiency*

The current net asset deficiency position of the Group as at 31 December 2019 is \$339 million (31 December 2018: \$1,009 million current net asset position). The factors that contributed to the current net asset deficiency position include:

- (a) an interest-bearing liability of \$1,267 million has been re-classified to current during the year due to a repayment expected in the year ending 31 December 2020;
- (b) excluding the impact of the above reclassification, the Group has current net assets of \$928 million; and
- (c) the Group has continued to generate cash inflows from operating activities in the current year of \$1,548 million (31 December 2018: \$1,747 million).

## A Basis of Preparation (continued)

(xii) *Current net asset deficiency (continued)*

The Directors continually monitor the Group's working capital position including forecast working capital requirements in light of the Group's existing debt facilities and available cash reserves and are satisfied that the Group will be able to pay its debts as and when they fall due for a period of 12 months from the date of the financial report.

## B Performance

This section of the financial statements focuses on disclosure that enhances a user's understanding of profit after tax. Segment reporting provides a breakdown of profit, revenue and assets by geographic segment. The key line items of the profit or loss along with their components provide details behind the reported balances.

### B1 Segment information

#### Accounting Policy

Management has determined the operating segments based on the strategic direction and organisational structure of the Group together with reports reviewed by the Chief Operating Decision Makers ("CODM"), defined as the Executive Committee, that are used to make strategic decisions including resource allocation and assessment of segment performance.

The reportable segments are considered at a regional level being New South Wales ("NSW") and Queensland ("QLD").

Non-operating items of the Group are presented under the segment "Corporate" which includes administrative expenses, foreign exchange gains and losses recycled from hedge reserve, and the elimination of intersegment transactions and other consolidation adjustments.

#### (a) Segment information

The segment information for the reportable segments for the year ended 31 December 2019 is as follows:

31 December 2019	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	3,917	448	(190)	4,175
Add: Fair value losses recycled from hedge reserve	-	-	190	190
<b>Revenue from external customers</b>	<b>3,917</b>	<b>448</b>	<b>-</b>	<b>4,365</b>
Operating EBIT	1,063	26	(61)	1,028
Operating EBITDA	1,623	66	(54)	1,635
<b>Material income or expense items</b>				
<b>Non-cash items</b>				
Depreciation and amortisation	(560)	(40)	(7)	(607)
Arbitration award including interest	-	-	56	56
Remeasurement of contingent royalty	-	-	12	12
Remeasurement of royalty receivable	-	-	32	32
	<b>(560)</b>	<b>(40)</b>	<b>93</b>	<b>(507)</b>
<b>Total capital expenditure</b>	<b>360</b>	<b>16</b>	<b>4</b>	<b>380</b>

## B Performance (continued)

### B1 Segment information (continued)

#### (a) Segment information (continued)

31 December 2019	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Segment assets	8,770	670	1,379	10,819
Investment in associate and joint ventures	184	-	89	273
Derivative financial instruments	-	-	1	1
<b>Total assets</b>	<b>8,954</b>	<b>670</b>	<b>1,469</b>	<b>11,093</b>

The segment information for the reportable segments for the year ended 31 December 2018 is as follows:

31 December 2018	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	4,294	446	(160)	4,580
Add: Fair value losses recycled from hedge reserve	-	-	160	160
<b>Revenue from external customers</b>	<b>4,294</b>	<b>446</b>	<b>-</b>	<b>4,740</b>
Operating EBIT	1,698	95	(136)	1,657
Operating EBITDA	2,183	127	(130)	2,180
<b>Material income or expense items</b>				
<b>Non-cash items</b>				
Depreciation and amortisation expense	(483)	(33)	(7)	(523)
Remeasurement of royalty receivable	-	-	4	4
Gain on disposal of joint operation and subsidiaries	-	-	78	78
Transaction costs	-	-	(11)	(11)
Stamp duty accrued	-	-	4	4
Impairment of financial assets	-	-	(21)	(21)
Remeasurement of financial assets	-	-	(29)	(29)
	<b>(483)</b>	<b>(33)</b>	<b>18</b>	<b>(498)</b>
<b>Cash items</b>				
Transaction costs	-	-	(18)	(18)
Stamp duty paid	-	-	(30)	(30)
	<b>-</b>	<b>-</b>	<b>(48)</b>	<b>(48)</b>
<b>Total capital expenditure</b>	<b>200</b>	<b>10</b>	<b>-</b>	<b>210</b>
Segment assets (restated)	8,921	727	1,424	11,072
Investment in associate and joint ventures	191	-	116	307
<b>Total assets</b>	<b>9,112</b>	<b>727</b>	<b>1,540</b>	<b>11,379</b>

\* Total segment revenue consists of revenue from the sale of coal whereas revenue disclosed in the profit or loss also includes other revenue such as management fees, sea freight, rents and sub-lease rentals, interest income, dividend income and royalty income. Refer to Note B1(b) below.

There was no impairment charge or other significant non-cash items recognised during the year ended 31 December 2019 and 31 December 2018 other than those disclosed above.

## B Performance (continued)

### B1 Segment information (continued)

#### (b) Other segment information

##### (i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties for the reportable segments are measured in a manner consistent with that in the profit and loss.

Revenue from external customers are derived from the sale of coal from operating mines and coal purchases. Segment revenues are allocated based on the country in which the customer is located. Refer to Note B2 for revenue from external customers split by geographical region.

Revenues from the top five external customers were \$1,876 million (2018: \$1,644 million) which in aggregate represent approximately 37% (2018: 35%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and Queensland coal mining segments.

Segment revenue reconciles to total revenue as follows:

	31 December 2019 \$M	31 December 2018 \$M
<b>Total segment revenue</b>	<b>4,175</b>	4,580
Interest income	125	119
Mining services fees	43	46
Sea freight	83	66
Other revenue	34	39
<b>Total revenue (refer to Note B2)</b>	<b>4,460</b>	4,850

##### (ii) Operating EBITDA

The Executive Committee assesses the performance of the operating segments based on a measure of Operating EBITDA. This measure excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, business combination related expenses and significant impairments of cash-generating units. Furthermore, the measure excludes the effects of fair value re-measurements and foreign exchange gains / (losses) on interest-bearing liabilities. Interest income and expense are not allocated to the NSW and QLD segments, as this type of activity is driven by the corporate function, which manages the cash position of the Group.

A reconciliation of Operating EBITDA to profit before income tax from continuing operations is provided as follows:

	31 December 2019 \$M	31 December 2018 \$M
<b>Operating EBITDA</b>	<b>1,635</b>	2,180
Depreciation and amortisation	(607)	(523)
<b>Operating EBIT</b>	<b>1,028</b>	1,657

## B Performance (continued)

### B1 Segment information (continued)

#### (b) Other segment information (continued)

##### (ii) Operating EBITDA (continued)

	31 December 2019 \$M	31 December 2018 \$M
Interest income	125	119
Finance costs	(233)	(293)
Bank fees and other charges	(56)	(96)
Arbitration award	49	-
Gain on disposal of interest in joint operation and subsidiaries	-	78
Stamp duty	-	(25)
Fair value losses recycled from hedge reserve - USD loans	(190)	(160)
Transaction costs	-	(29)
Remeasurement of financial assets	-	(29)
Remeasurement of contingent royalty	12	(33)
Impairment of financial assets	-	(21)
Remeasurement of royalty receivable	32	4
<b>Profit before income tax from continuing operations</b>	<b>767</b>	<b>1,172</b>

##### (iii) Segment capitalised expenditure

Amounts with respect to capital expenditure are measured in a manner consistent with that of the financial statements. Reportable segment's capital expenditure is set out in Note B1(a).

All segment assets are located in Australia.

##### (iv) Segment liabilities

A measure of total liabilities for reportable segments are not provided to the Executive Committee. The Executive Committee reviews the liabilities of the Group at a consolidated level.

## B2 Revenue

### Accounting Policies

#### (a) Sales revenue

##### (i) Sale of coal

The Group produces and sells a range of thermal and metallurgical coal products. Revenue from the sale of coal is recognised when control of the product has transferred to the customer usually when loaded onto the vessel, or Free On Board ("FOB"). Some contracts include sea freight services which is accounted for as a separate performance obligation. On occasion revenue is recognised as the vessel pulls into harbour on a Free Alongside Ship ("FAS") basis. A receivable is recognised when control of the products is delivered as this is the point in time that the consideration is unconditional and only the passage of time is required before the payment is due. Payment is usually due within 21 days of the date when control of the product is transferred to the customer.

Some of the Group's coal sales contracts are long-term supply agreements which stipulate the annual quantity and contain a price negotiation mechanism. The initial transaction price is the market price prevailing at the time of the future shipment. As the future market price for coal is highly susceptible to factors outside the Group's influence, the transaction price for a shipment is not readily determinable until or nearing the time of the shipment.

## B Performance (continued)

### B2 Revenue (continued)

As a result, the Group has concluded that a contract with the customer does not exist for those shipments.

The transaction price for a shipment is often linked to a market index for the respective delivery period, for example, by reference to the average GlobalCOAL Newcastle Index for the delivery period. At the end of each reporting period, the final average index price may not be available for certain shipments. In those situations, the Group uses “the expected value” method to estimate the amount of variable consideration with reference to index prices at the end of the reporting period for those shipments.

#### (b) Other revenue

##### (i) Interest

Interest income from a financial asset is accrued over time, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income from leases is recognised over the term of the lease based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

##### (ii) Mining services fees

The Group provides mining, corporate support and IT services which relate to the management of Watagan mines. The management and mining service agreements stipulate a fixed monthly service fee and payment of the service fees is usually due within 21 days after the end of each calendar month in which the service is rendered. Revenue from providing management and mining services is recognised when the services are rendered.

##### (iii) Sea freight services

When contracts for sale of coal include sea freight services the performance obligation associated with providing the shipping is separately measured and recognised as the service is provided.

##### (iv) Other

Other primarily consists of dividends, rent, and other management fees. Dividends are recognised as revenue when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and can be measured reliably. Rental income arising on land surrounding a mine site is accounted for on a straight-line basis over the lease term.

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Sale of coal	<b>4,365</b>	4,740
Fair value losses recycled from hedge reserve	<b>(190)</b>	(160)
	<b>4,175</b>	4,580
<i>Other revenue</i>		
Interest income	<b>125</b>	119
Mining services fees	<b>43</b>	46
Sea freight	<b>83</b>	66
Other	<b>34</b>	39
	<b>285</b>	270
	<b>4,460</b>	4,850

## B Performance (continued)

### B2 Revenue (continued)

At 31 December 2019 there are \$114 million of provisionally priced sales (31 December 2018 \$310 million), still to be finalised, of which \$99 million is yet to be collected (31 December 2018 \$131 million).

#### Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market and major products/service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's three reportable segments (see Note B1):

31 December 2019	NSW \$M	QLD \$M	Corporate \$M	Total \$M
<b>Primary geographical markets</b>				
Japan	1,012	127	-	1,139
China	664	19	-	683
South Korea	428	118	-	546
Taiwan	510	23	-	533
Singapore	394	71	-	465
Australia (Yancoal's country of domicile)	404	49	-	453
Thailand	338	-	-	338
All other foreign countries	167	41	-	208
<b>Total</b>	<b>3,917</b>	<b>448</b>	<b>-</b>	<b>4,365</b>
<b>Product mix</b>				
Thermal coal	3,382	54	-	3,436
Metallurgical coal	535	394	-	929
<b>Total</b>	<b>3,917</b>	<b>448</b>	<b>-</b>	<b>4,365</b>
31 December 2018	NSW \$M	QLD \$M	Corporate \$M	Total \$M
<b>Primary geographical markets</b>				
Japan	946	109	-	1,055
Singapore	760	101	-	861
China	671	68	-	739
South Korea	546	118	-	664
Taiwan	501	17	-	518
Thailand	343	-	-	343
Australia (Yancoal's country of domicile)	283	12	-	295
All other foreign countries	244	21	-	265
<b>Total</b>	<b>4,294</b>	<b>446</b>	<b>-</b>	<b>4,740</b>
<b>Product mix</b>				
Thermal coal	3,467	7	-	3,474
Metallurgical coal	827	439	-	1,266
<b>Total</b>	<b>4,294</b>	<b>446</b>	<b>-</b>	<b>4,740</b>

In 2019 11.0% of coal sales were attributable to the largest customer and 36.9% to the top five customers (2018: 9.7% and 34.7% respectively).

## B Performance (continued)

### B2 Revenue (continued)

#### Contract balances

The group has recognised the following revenue-related receivables, contract assets and liabilities:

	31 December 2019 \$M	31 December 2018 \$M
Receivables from contracts with customers	276	442

There are no contract assets, liabilities or costs as at 31 December 2019 or 31 December 2018.

#### Transaction price allocated to the remaining performance obligation

For long term contracts the Group has concluded that contracts with customers do not exist for those shipments for which the actual delivery quantity and transaction price have not yet been negotiated or determined. For the remaining shipments where the delivery quantity and transaction price have been negotiated or determined but are subject to market price movements, the contract durations are within one year or less. As a result, the Group elects to apply the practical expedient in paragraph 121(a) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the coal sales contracts. The Group also elects to apply the practical expedient in paragraph 121(b) of AASB 15 and does not disclose information about the remaining performance obligations in relation to the management and mining service contracts.

### B3 Other income

	31 December 2019 \$M	31 December 2018 \$M
Gain on disposal of joint operation and subsidiaries (Note E1)	-	78
Gain on remeasurement of royalty receivable	32	4
Gain on remeasurement of contingent royalty	12	-
Net gain on foreign exchange*	-	61
Sundry income**	57	7
	<u>101</u>	<u>150</u>

\* There is no impact on the conversion of US dollar denominated interest-bearing liabilities (2018: nil).

\*\* Sundry income includes \$49 million relating to an arbitration award as disclosed in Note C8(ii).

## B Performance (continued)

### B4 Employee benefits

#### Accounting Policies

(i) Employee benefits

Employee benefits are expensed as the related service by the employee is provided and includes both equity and cash based payment transactions. Employee benefits recognised in the profit or loss are net of recoveries.

(ii) Superannuation

Contributions made by the Group under Australian legislation to contribute 9.5% of employees salaries and wages to the employee's defined contribution superannuation funds are recognised as an expense in the period in which they are incurred.

(iii) Equity-settled share-based payments

The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market based performance conditions at the vesting date. For share-based payment awards with market based performance conditions, the grant date fair value of the share-based payment is measured using Black-Scholes option pricing model to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

#### (a) Employee benefits

	31 December 2019 \$M	31 December 2018 \$M
Employee benefits	484	464
Share-based payments	-	16
Superannuation contributions	41	38
Total employee benefits	<u>525</u>	<u>518</u>

During 2019 \$7 million of employee benefits were capitalised (2018: \$1 million)

#### (b) Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel ("KMP") for the year ended 31 December 2019. The total of remuneration paid to KMP of the Company and the Group during the year are as follows:

	31 December 2019 \$	31 December 2018 \$
Short-term employee benefits	4,922,451	5,901,640
Post-employment benefits	161,908	149,534
Other long-term benefits	2,827,707	2,742,559
	<u>7,912,066</u>	<u>8,793,733</u>

#### (c) Top five employees

The five highest paid individuals in the Group include the Chief Executive for each of the years and the Chief Operating Officer, and details of whose remuneration are set out in the remuneration report. Details of emoluments of the remaining three (2018: four) highest paid individuals who are neither a Director, Chief Executive, or Chief Operating Officer (2019 only) of the Company are as follows:

**B Performance (continued)**

**B4 Employee benefits (continued)**

**(c) Top five employees (continued)**

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Salaries, allowance and other benefits in kind	2	2
Retirement benefit scheme contributions	-	-
Discretionary bonuses	3	5
	<u>5</u>	<u>7</u>

Their emoluments were within the following bands:

	<b>31 December 2019 Number</b>	31 December 2018 Number
HK\$8,000,000 to HK\$8,500,000	1	-
HK\$8,500,000 to HK\$9,000,000	-	1
HK\$9,000,000 to HK\$9,500,000	2	-
HK\$10,000,000 to HK\$10,500,000	-	1
HK\$11,000,000 to HK\$11,500,000	-	2

**B5 Expenses**

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
<b>(a) Finance costs</b>		
Lease charges	7	3
Unwinding of discount on provisions and deferred payables	11	17
Other interest expenses	215	273
Total finance costs	<u>233</u>	<u>293</u>

## B Performance (continued)

### B5 Expenses (continued)

#### (b) Other operating expenses

Bank fees and other charges	56	96
Duties and other levies	21	18
Insurance	12	13
Travel and accommodation	12	9
Information technology	11	14
Net loss on disposal of property, plant and equipment	9	9
Stamp duty	-	25
Remeasurement of contingent royalty	-	33
Remeasurement of financial assets	-	29
Impairment of financial assets	-	21
Net loss on foreign exchange	5	-
Rental expense	3	4
Other operating expenses	16	7
Total other operating expenses	145	278

#### (c) Largest suppliers

In 2019 5.0% of total operating expenses related to one supplier and 21.3% to the top five suppliers (2018 7.6% and 23.5% respectively).

### B6 Taxation

#### Accounting Policy

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate and laws enacted or substantially enacted at the end of the reporting period for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax expense or benefit associated with these items is recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying value of deferred tax assets are reviewed at each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available to allow all or part of the asset to be recovered.

Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

## B Performance (continued)

### B6 Taxation (continued)

#### Tax consolidation legislation

Yancoal Australia Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Yancoal Australia Ltd, and the entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Yancoal Australia Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the entities in the tax consolidated group.

The entities in the tax consolidated group have entered into a tax funding agreement under which the wholly-owned entities fully compensate Yancoal Australia Ltd for any current tax payable assumed and are compensated by Yancoal Australia Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Yancoal Australia Ltd under the tax consolidation legislation as loans between entities. The amounts receivable/payable under the tax funding agreement are due upon receipt of funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

#### Critical accounting estimates and judgements

##### *Deferred tax*

Judgement is required to determine the amount of deferred tax assets that are recognised based on the likely timing and the level of future taxable profits. The Group assesses the recoverability of recognised and unrecognised deferred taxes, including historical losses incurred in Australia, using estimates and assumptions relating to projected taxable income as applied in the impairment process, refer to note C3.

##### *Uncertain tax matters*

Judgements are applied in how income tax legislation interacts with income tax accounting principles. These judgements are subject to risk and uncertainty, and there is the possibility that changes in circumstances will alter expectations, which may impact deferred tax assets and liabilities recognised. Where the final tax outcome is different from the amounts that are initially recognised these differences will impact the current and deferred tax in the period in which the determination is made.

#### (a) Income tax expense

##### (i) Net tax expenses

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Income tax expense	(31)	(340)
Income tax over provision in respect of prior years	(17)	20
	<u>(48)</u>	<u>(320)</u>

## B Performance (continued)

### B6 Taxation (continued)

#### (a) Income tax expense (continued)

##### (i) Net tax expenses (continued)

##### (ii) Income tax expense

Deferred tax expense	<u>(48)</u>	(320)
Deferred tax expense included in income tax benefit comprises:		
Net (under) / over provision in respect of prior years	(17)	20
Decrease in deferred tax assets (refer to Note B6(b)(ii))	(230)	(301)
Increase in deferred tax liabilities (refer to Note B6(c)(ii))	199	(39)
	<u>(48)</u>	<u>(320)</u>

##### (iii) Reconciliation of income tax expense to prima facie tax payable

	31 December 2019 \$M	31 December 2018 \$M
Profit from continuing operations before tax	767	1,172
Tax at the Australian tax rate of 30% (2018 - 30%)	(230)	(352)
Tax effect of amounts which are not deductible / taxable in calculating taxable income:		
Under provision in prior years	(17)	20
Movements in tax base of assets	219	-
Movements in financial assets	-	(15)
Stamp duty expensed	-	(7)
Share of (loss) / profit of equity-accounted investees not deductible	(7)	16
Gain on disposal of interest in joint operation	-	14
Other	(13)	4
Income tax expense	<u>(48)</u>	<u>(320)</u>

In finalising the opening tax base of the acquired Coal and Allied Industries Ltd an adjustment to deferred tax assets has been recognised of \$219 million.

##### (iv) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

Cash flow hedges	53	(85)
Adjustment on adoption of AASB 9	-	7
	<u>53</u>	<u>(78)</u>

## B Performance (continued)

### B6 Taxation (continued)

#### (b) Deferred tax assets and liabilities

##### (i) Deferred tax balances

	31 December 2019 \$M	31 December 2018 \$M
Deferred tax assets	792	1,062
Deferred tax liabilities	(803)	(1,029)
	(11)	33

##### (ii) Deferred tax assets

Movements	Tax losses and offsets \$M	Provisions \$M	Trade and other payables \$M	Finance lease liabilities \$M	Cash flow hedges \$M	Other \$M	Total \$M
<b>At 1 January 2018</b>	839	177	28	16	135	24	1,219
Under/over provision in prior year	41	(25)	-	-	11	(30)	(3)
(Charged)/credited							
- to profit or loss	(321)	(23)	6	(3)	-	40	(301)
- directly to equity	-	(7)	-	-	85	-	78
- tax loss recorded on behalf of Watagan Group	66	-	-	-	-	-	66
Acquisition of subsidiaries	-	7	-	-	-	(4)	3
<b>At 31 December 2018</b>	625	129	34	13	231	30	1,062
<b>At 1 January 2019</b>	625	129	34	13	231	30	1,062
Under/over provision in prior year	(56)	1	1	-	-	10	(44)
(Charged)/credited							
- to profit or loss	(296)	24	(6)	16	32	-	(230)
- directly to equity	-	-	-	-	(53)	-	(53)
- tax loss recorded on behalf of Watagan Group	57	-	-	-	-	-	57
Acquisition of subsidiaries	-	-	-	-	-	-	-
<b>At 31 December 2019</b>	330	154	29	29	210	40	792

The Group's tax consolidated group includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, refer to E2b(i) for further details. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses / credits can be utilised. The Group has unrecognised capital tax losses (tax effected) of \$11 million (2018: capital tax losses \$9 million). There is no expiry date on these tax losses.

## B Performance (continued)

### B6 Taxation (continued)

#### (b) Deferred tax assets and liabilities (continued)

##### (iii) Deferred tax liabilities

Movements	Property, plant and equipment \$M	Intangible assets \$M	Inventories \$M	Mining tenements and exploration and evaluation assets \$M	Unrealised foreign exchange gains \$M	Other \$M	Total \$M
<b>At 1 January 2018</b>	143	3	13	850	(3)	24	1,030
Under / over provision in prior year	-	-	-	(23)	-	-	(23)
Charged/(credited)							
- to profit or loss	57	6	14	(71)	3	30	39
- to other	-	-	-	-	-	(4)	(4)
Acquisition of subsidiaries	(15)	1	-	1	-	-	(13)
<b>At 31 December 2018</b>	<b>185</b>	<b>10</b>	<b>27</b>	<b>757</b>	<b>-</b>	<b>50</b>	<b>1,029</b>
<b>At 1 January 2019</b>	185	10	27	757	-	50	1,029
Under / over provision in prior year	12	-	(1)	(34)	-	(4)	(27)
Charged/(credited)							
- to profit or loss	(37)	(4)	2	(175)	9	6	(199)
- to other	-	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-
<b>At 31 December 2019</b>	<b>160</b>	<b>6</b>	<b>28</b>	<b>548</b>	<b>9</b>	<b>52</b>	<b>803</b>

### B7 Earnings per share

#### Accounting Policies

##### (a) Basic earnings per share

Calculated as net earnings attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference shares dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element, excluding any treasury shares held.

##### (b) Diluted earnings per share

Calculated as net earnings attributable to members of the parent, adjusted for costs of servicing equity (other than dividends); the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (a) Basic and diluted earnings per share

	31 December 2019	31 December 2018
Total basic earnings per share (cents)	<b>54.5</b>	67.6
Total diluted earnings per share (cents)	<b>54.4</b>	67.6

## B Performance (continued)

### B7 Earnings per share (continued)

#### (b) Reconciliation of earnings used in calculating profit per share

	31 December 2019 \$M	31 December 2018 \$M
<i>Basic and diluted earnings per share</i>		
Earnings used in calculating the basic and diluted earnings per share:		
From continuing operations	719	852
	719	852

#### (c) Weighted average number of shares used in calculating profit per share

	31 December 2019 Number	31 December 2018 Number
Ordinary shares on issue at start on the period	1,320,439,437	1,255,984,189
Less: weighted average of treasury shares held	(31,225)	(323,623)
Plus: weighted average of new ordinary shares issued during the period	-	4,155,183
Weighted average number of ordinary shares used in basic earnings per share	1,320,408,212	1,259,815,749
Adjusted for rights and options on issue	1,254,597	1,365,383
Weighted average shares used in diluted earnings per share	1,321,662,809	1,261,181,132

## C Operating Assets and Liabilities

Investment in assets drives the current and future performance of the Group. This section includes disclosures for property plant and equipment, mining tenements, exploration and evaluation assets, intangible assets, royalty receivable, cash and cash equivalents, trade and other receivables, trade and other payables, inventories and provisions contained within the Balance Sheet.

### C1 Property, plant and equipment

#### Accounting Policies

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost includes expenditure directly attributable to the acquisition of the items and the estimated restoration costs associated with the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

Mine development assets include all mining related development expenditure that is not included under land, buildings, and plant and equipment. The open pit operations capitalise mine development costs including both direct and indirect costs incurred to remove overburden and other waste materials to enable access to the coal seams during the development of a mine before commercial production commences. Amortisation of those capitalised costs over the life of the operation commences at the time that commercial production begins for the mine or for a new open pit mining area. Underground mine development costs include both direct and indirect mining costs relating to underground longwall panel development and mains development (primary access /

## C Operating Assets and Liabilities (continued)

### C1 Property, plant and equipment (continued)

egress roads for the mine). Mains development costs are capitalised net of the coal sales revenue earned from coal extracted as part of the mains development process. These capitalised costs are amortised over the life of the mine if the roads service the entire mine or over the life of the panels accessible from those mains if shorter than the mine life.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward mine development costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

#### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

#### *Depreciation and amortisation*

Fixed assets, excluding freehold land, is depreciated on a straight-line or Units of Production ("UOP") basis over the asset's useful life to the Group. UOP is based on either machine hours utilised, or production tonnes from life of mine plans and estimated reserves, commencing from the time the asset is ready for use. Leased assets are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The estimated useful lives are as follows:

- Buildings 10 - 25 years
- Mine development 10 - 40 years
- Plant and equipment 2.5 - 40 years
- Leased property, plant and equipment 2 - 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

See Note C3 for further details on impairment of assets and Note C2 for further details on the estimation of coal reserves used for UOP.

## C Operating Assets and Liabilities (continued)

### C1 Property, plant and equipment (continued)

	Assets under construction \$M	Freehold land and buildings \$M	Mine development \$M	Plant and equipment \$M	Leased plant and equipment \$M	Total \$M
<b>Year ended 31 December 2018</b>						
Opening net book amount	81	274	967	1,434	76	2,832
Transfer from assets under construction	(177)	21	222	(66)	-	-
Additions	190	1	10	4	5	210
Transfer from exploration and evaluation	-	-	10	-	-	10
Acquisition through business combinations	8	22	61	136	-	227
Other disposals	-	-	-	(9)	-	(9)
Depreciation	-	(8)	(85)	(229)	(9)	(331)
Closing net book amount	102	310	1,185	1,270	72	2,939
<b>At 31 December 2018</b>						
Cost or fair value	102	376	1,613	2,975	110	5,176
Accumulated depreciation	-	(66)	(428)	(1,705)	(38)	(2,237)
Net book amount	102	310	1,185	1,270	72	2,939
<b>Year ended 31 December 2019</b>						
Opening net book amount	102	310	1,185	1,270	72	2,939
Initial recognition of lease assets under AASB 16	-	-	-	-	69	69
Transfer from assets under construction	(149)	9	36	126	(25)	(3)
Additions	271	-	93	13	18	395
Transfer to finance lease receivables	-	-	-	-	(19)	(19)
Transfer to mining tenements	-	-	(41)	-	-	(41)
Transfer from exploration and evaluation	-	-	11	-	-	11
Other disposals	-	-	-	(13)	(4)	(17)
Depreciation	-	(9)	(96)	(256)	(33)	(394)
Closing net book amount	224	310	1,188	1,140	78	2,940
<b>At 31 December 2019</b>						
Cost or fair value	224	383	1,712	3,095	113	5,527
Accumulated depreciation	-	(73)	(524)	(1,955)	(35)	(2,587)
Net book amount	224	310	1,188	1,140	78	2,940

During the year ended 31 December 2019 \$3 million of depreciation and amortisation was capitalised (2018: \$1 million).

#### (a) Non-current assets pledged as security

Refer to Note D2(b) for information on non-current assets pledged as security by the Group.

## C Operating Assets and Liabilities (continued)

### C2 Mining tenements

#### Accounting Policy

Mining tenements have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Mining tenements are amortised from the date when commercial production commences, or the date of acquisition. Amortisation is calculated over the life of the mine on a 'units of production' method based on the Joint Ore Reserves Committee ("JORC") estimated reserves.

Changes in the annual amortisation rate resulting from changes in the remaining estimated reserves, are applied on a prospective basis from the commencement of the next financial year. Every year the mining tenement's carrying amount is compared to its recoverable amount and assessed for impairment, or for possible reversals of prior year impairment.

See Note C3 for further details on the impairment of assets.

	31 December 2019 \$M	31 December 2018 \$M
Opening net book amount	4,218	4,296
Acquisition through business combination	-	128
Transfers from exploration and evaluation	-	6
Transfers from mine development	41	-
Amortisation	(212)	(188)
Transfer to assets classified as held for sale	-	(24)
Closing net book amount	<u>4,047</u>	<u>4,218</u>

#### Critical accounting estimates and judgements

Coal Reserves are based on geological information and technical data relating to the size, depth, quality of coal, suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of Recoverable Reserves is based on factors such as estimates of foreign exchange rates, coal price, future capital requirements, rehabilitation obligations and production costs, along with geological assumptions and judgements made in estimating the size and quality of the reserves. Management forms a view of forecast sales prices based on long term forecast coal price data from multiple external sources.

## **C Operating Assets and Liabilities (continued)**

### **C3 Impairment of long life assets**

#### **Accounting policies**

Mining tenements and goodwill are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Mining tenements and other non-financial assets (excluding goodwill) that have previously suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

For the purposes of assessing impairment, assets are grouped into Cash-Generating Units ("CGU"), being the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

The Group assesses impairment by evaluation of conditions and events specific to the CGU that may be indicative of impairment triggers.

#### **Critical accounting estimates and judgements**

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, coal prices (considering current and historical prices, price trends and related factors), foreign exchange rates, coal resources and reserves (refer to C2), operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of profit or loss. Management must use judgement in determining the CGUs that should be used for impairment testing and allocating goodwill that arises from business combinations to these CGUs.

The Group estimates its coal resources and reserves based on information compiled by Competent Persons as defined by the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2012), which is prepared by the Joint Ore Reserves Committee ("JORC") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, known as the JORC 2012 Code, and Australian Securities Exchange ("ASX") Listing Rules 2014.

#### **(a) CGU assessment**

The Group operates on a regional basis within NSW and as such the NSW mines are considered to be one CGU. From 2017, Hunter Valley Operations and Mount Thorley Warkworth have been included in the NSW regional CGU alongside Moolarben and Stratford/Duralie. Yarrabee and Middlemount are considered separate CGU's due to their location and ownership structure.

## C Operating Assets and Liabilities (continued)

### C3 Impairment of long life assets (continued)

#### (b) Assessment of fair value

Each CGU's fair value less costs of disposal has been determined using a discounted cash flow model over the expected life of mine (18 - 42 years). The fair value model adopted has been categorised as level 3 in the fair value hierarchy.

The key assumptions in the model include:

Key assumptions	Description
Coal prices	<p>The Group's cash flow forecasts are based on estimates of future coal prices, which assume benchmark prices will revert to the group's assessment of the long term real coal prices of US\$51 – US\$100 per tonne (2018: US\$67 – US\$104 per tonne) for thermal and US\$102 – US\$176 per tonne (2018: US\$112 – US\$217 per tonne) for metallurgical coal.</p> <p>The Group receives long term forecast coal price data from two external sources when determining its benchmark coal price forecasts and then makes adjustments for specific coal qualities.</p> <p>The external sources have determined their benchmark coal price forecasts having regard to the latest International Energy Agency (IEA) New Policy Scenario, the Nationally Determined Contributions submitted in the lead-up to the Paris Agreement in 2015 and National Energy Policies as they are updated. This contemplates the global seaborne demand for thermal coal will remain relatively consistent to showing a decline of 7.4% through to 2040 whilst the global seaborne demand for metallurgical coal will increase up to 2040. Key risks to the outlooks are increasing decarbonisation trends, trade disputes, protectionism, import control policies in China, shareholder activism to divest from coal, the pace of renewable technology advancement and investor behaviour to coal project financing.</p> <p>The Group has considered the impacts of a more rigorous international response to climate change under the Paris Agreement and notes that the average mine life required for the recoverable amount to continue to exceed the book value, holding all inputs constant, including coal prices, is 8, 36 and 5 years for the NSW, Yarrabee and Middlemount CGUs, respectively. The NSW CGU has a 89% exposure to thermal coal and 11% exposure to metallurgical coal whilst Yarrabee and Middlemount are both metallurgical coal mines.</p> <p>The Group concludes that whilst a more rigorous international response to climate change could reduce the future demand for coal the likely impact of any such actions are not expected to materially impact during the time periods noted above and hence would not result in the recoverable amount falling below book value.</p> <p>For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.</p>
Foreign exchange rates	<p>The long term AUD/USD forecast exchange rate of \$0.75 (2018: \$0.75) is based on external sources. The year-end AUD/USD exchange rate was \$0.70 per the Reserve Bank of Australia.</p>

**C Operating Assets and Liabilities (continued)**

**C3 Impairment of long life assets (continued)**

**(b) Assessment of fair value (continued)**

Production and capital costs	<p>Production and capital costs are based on the Group's estimate of forecast geological conditions, stage of existing plant and equipment and future production levels.</p> <p>This information is obtained from internally maintained budgets, the five year business plan, life of mine models, life of mine plans, JORC reports, and project evaluations performed by the Group in its ordinary course of business.</p>
Coal reserves and resources	<p>See discussion at Note C2 Mining tenements for how the coal reserves and resources are determined.</p>
Discount rate	<p>The Group has applied a post-tax discount rate of 10.5% (2018: 10.5%) to discount the forecast future attributable post-tax cash flows.</p> <p>The post-tax discount rate applied to the future cash flow forecasts represents an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.</p> <p>This rate is also consistent with the Group's five year business plan, life of mine models and project evaluations performed in ordinary course of business</p>

Based on the above assumptions at 31 December 2019 the recoverable amount is determined to be above book value for all CGU's resulting in no impairment.

Impairment provisions recorded as at 31 December 2019 is \$67 million for Stratford and Duralie. Stratford and Duralie is included in the NSW region CGU. Management may consider reversals of the impairment provision previously recognised if there is either an increase in the average long term real revenue over the life of the mine due to either an increase in USD coal prices, or a weakening of the AUD/USD foreign exchange rate or a combination of both, or reductions in the current and life of mine operating costs, capital expenditure requirements, or an increase in the reserves.

In determining the value assigned to each key assumption, management has used: external sources of information; the expertise of external consultants; as well as the experience of experts within the Group to validate entity specific assumptions such as coal reserves and resources. Additionally various sensitivities have been determined and considered with respect to each of the key assumptions, further supporting the above fair value conclusions.

## C Operating Assets and Liabilities (continued)

### C3 Impairment of long life assets (continued)

#### Key sensitivity

The most sensitive input in the fair value model is forecast revenue, which is primarily dependent on estimated future coal prices and the AUD/USD forecast exchange rate.

	2019		
	NSW \$M	Yarrabee \$M	Middlemount \$M
Book Value	5,645	367	274
Recoverable Amount	11,315	372	662
Head Room	5,670	5	388
USD Coal Price (i)			
+10%	2,555	284	200
-10%	(2,557)	(307)	(206)
Exchange Rate (ii)			
+5 cents	(1,493)	(177)	(107)
-5 cents	1,697	188	120
Discount Rate (iii)			
+50 bps	(487)	(9)	(20)
-50 bps	526	9	21

(i) This represents the change in recoverable amount due to a +/- 10% change to our coal price assumption.

(ii) This represents the change in recoverable amount due to a +/- 5 cents change to the long-term US\$:A\$ foreign exchange rate adopted.

(iii) This represents the change in recoverable amount due to a +/- 50bps change in discount rate adopted.

If coal prices were -10% LOM the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee who exceeded the recoverable amount by \$302 million. If the AUD/USD long term forecast exchange rate was \$0.80 the recoverable amount would exceed book value for all CGUs with the exception of Yarrabee who exceed the recoverable amount by \$172 million. If the WACC was 11.0% the recoverable amount would exceed the book value for all CGU's apart from Yarrabee who exceeds the recoverable amount by \$4 million.

#### (c) Goodwill

The Yarrabee goodwill was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

## C Operating Assets and Liabilities (continued)

### C4 Exploration and evaluation assets

#### Accounting Policy

Exploration and evaluation expenditure incurred is accumulated in respect of each separately identifiable area of interest which is at the individual exploration permit or licence level. These costs are only carried forward where the right of tenure for the area of interest is current and to the extent that they are expected to be recouped through successful development and commercial exploitation, or alternatively, sale of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets acquired in a business combination are recognised at their fair value at the acquisition date. The carrying amount of exploration and evaluation assets are assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount. A regular review is undertaken for each area of interest to determine the appropriateness of continuing to carry forward costs in relation to each area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining tenements or mine development assets.

#### Critical accounting estimates and judgements

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If after expenditure is capitalised information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is recognised in the profit and loss in the period when the new information becomes available.

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Opening net book amount	<b>563</b>	565
Acquisition through business combinations	-	12
Other additions	<b>3</b>	2
Transfers to mining tenements	-	(6)
Transfers to mine development	<b>(11)</b>	(10)
Closing net book amount	<b>555</b>	563

## C Operating Assets and Liabilities (continued)

### C5 Intangibles

#### Accounting Policies

##### (i) Goodwill

Goodwill acquired in a business combination is recognised at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

See Note C3 for further details on impairment of assets.

##### (ii) Computer software

Computer software is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of expected benefit, which ranges from 2.5 to 10 years.

##### (iii) Water rights

Water rights have been recognised at cost and are assessed annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. The water rights have been determined to have an indefinite useful life as there is no expiry date on the licences.

##### (iv) Other

Other intangibles include access rights, other mining licenses and management rights associated with the Group's right to manage Port Waratah Coal Services. These intangibles have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. Amortisation of these other intangibles is calculated as the shorter of the life of the mine or agreement and using a units of production basis in tonnes, or on a straight-line basis. The estimated useful lives vary from 10 to 25 years.

	Goodwill \$M	Computer software \$M	Water rights \$M	Other \$M	Total \$M
<b>At 1 January 2018</b>					
Cost	60	25	18	14	117
Accumulated amortisation	-	(17)	-	(1)	(18)
Net book amount	60	8	18	13	99
Opening net book amount	60	8	18	13	99
Acquisition through business combination	-	2	-	1	3
Other disposals	-	-	(1)	-	(1)
Amortisation charge	-	(3)	-	(1)	(4)
Closing net book amount	60	7	17	13	97
<b>At 31 December 2018</b>					
Cost	60	27	17	14	118
Accumulated amortisation	-	(20)	-	(1)	(21)
Net book amount	60	7	17	13	97

## C Operating Assets and Liabilities (continued)

### C5 Intangibles (continued)

	Goodwill \$M	Computer software \$M	Water rights \$M	Other \$M	Total \$M
Opening net book amount	60	7	17	13	97
Other additions	-	1	1	-	2
Transfers - assets under construction	-	1	-	2	3
Other disposals	-	-	-	(1)	(1)
Amortisation charge	-	(3)	-	(1)	(4)
Closing net book amount	60	6	18	13	97
<b>At 31 December 2019</b>					
Cost	60	29	18	15	122
Accumulated amortisation	-	(23)	-	(2)	(25)
Net book amount	60	6	18	13	97

The goodwill at 31 December 2019 relates to the acquisition of Yancoal Resources Limited (formally known as Felix Resources Limited) from an independent third party in an arms length transaction and was allocated to the Yarrabee mine. Refer to Note C3 for the details regarding the fair value less cost to sell calculation performed at 31 December 2019. The CGU for which goodwill was allocated was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

### C6 Leases

#### (a) Amount recognised in profit or loss

	31 December 2019 \$M
Other income from equipment leasing	5
Depreciation on right of use assets (refer Note C1)	(33)
Expenses relating to short-term and variable leases	(32)
Interest on lease liabilities	(7)

## C Operating Assets and Liabilities (continued)

### C6 Leases (continued)

#### (b) As a lessee

##### *Right-of-use assets*

	Buildings \$M	Plant and equipment \$M	Total \$M
Opening balance at 31 December 2018	-	72	72
Initial recognition of leases under AASB 16	14	55	69
Transfer to plant and equipment	-	(25)	(25)
Transfer to finance lease receivables	-	(19)	(19)
Additions	2	16	18
Other disposals	-	(4)	(4)
Depreciation	(2)	(31)	(33)
Closing balance at 31 December 2019	14	64	78

An undiscounted maturity analysis of lease liabilities is disclosed in Note D2(d).

The cash outflow for capitalised leases was \$37 million for the year ended 31 December 2019.

#### (c) As a lessor

##### *Operating lease*

The Group leases certain mining equipment to its joint operations. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease receipts not eliminated on consolidation, showing the undiscounted lease payments to be received after the reporting date

	31 December 2019 \$M
Within one year	3
One to two years	3
Two to five years	6
More than five years	1
Total undiscounted lease payments	13

##### *Finance lease*

The Group sub-leases certain mining equipment to its joint operations. The Group has classified the sub-leases as finance leases, because the sub-leases are for the remaining term of the head leases.

The following table sets out a maturity analysis of lease receipts not eliminated, showing the undiscounted lease payments and interest income to be received after the reporting date.

## C Operating Assets and Liabilities (continued)

### C6 Leases (continued)

	31 December 2019 \$M
Within one year	1
One to two years	1
Two to five years	-
More than five years	-
Total undiscounted lease payments receivable	2
Unearned finance income	-
Residual value	14
Finance lease receivable	16

Rental income is included in 'other income'.

### C7 Cash and cash equivalents

#### Accounting Policy

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents includes:  
(i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and  
(ii) other short term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	31 December 2019 \$M	31 December 2018 \$M
Cash at bank and in hand	736	587
Deposits at call	73	341
Share of cash held in Joint Operations	153	103
Cash and cash equivalents	962	1,031

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

#### (a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D9. The maximum exposure to credit risk on the cash and cash equivalents balance at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

## C Operating Assets and Liabilities (continued)

### C8 Trade and other receivables

#### Accounting Policy

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. After initial recognition, trade and other receivables are carried at amortised cost using the effective interest method apart from Wiggins Island Preference Shares ("WIPS") which are classified as fair value through profit and loss. Refer to Note F5(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of trade and other receivables.

	31 December 2019 \$M	31 December 2018 \$M
<b>Current</b>		
Trade receivables from contracts with customers	276	431
Other trade receivables	121	81
Promissory note receivable (i)	-	40
Other receivable (ii)	56	-
	453	552
<b>Non-current</b>		
Receivables from joint venture (refer to Note E2(b)(iii))	203	218
Receivables from other entities (iv)	14	15
Long service leave receivables	65	59
	282	292

- (i) As part of the equity raising completed in 1 September 2017 US\$28 million was deposited in Yankuang Ozstar (Ningbo) Trading Co Limited, a related party, and a promissory note was issued to the Company. This has been settled during the year.
- (ii) On 6 August 2019 a subsidiary of the Group received a favourable decision in international arbitration proceedings commenced by a subsidiary in relation to a commercial dispute. A supplementary decision by the arbitration tribunal addressing costs and interest in the arbitration was received by the subsidiary on 18 December 2019. The counterparty to the arbitration attempted to appeal the tribunal's decision but its available avenues of appeal were exhausted by 20 December 2019. The tribunal awarded the subsidiary approximately \$49 million in damages plus costs, plus approximately \$7 million in interest. In 2020 the damages plus costs and interest has been received in cash.
- (iii) Receivables from joint venture includes a loan provided to Middlemount Coal Pty Ltd ("Middlemount") with a face value of \$212 million. From 1 January 2019 the shareholders of Middlemount agreed to make the loan interest free for 24 months. At 31 December 2019 this loan has been amortised using the effective interest rate method to \$203 million with the difference being recognised through profit and loss.
- (iv) Receivables from other entities includes the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ("WICET"). These include E Class WIPS and Gladstone Island Long Term Securities ("GiLTS"). During 2018 the WIPS were revalued to nil from \$29 million, the GiLTS were impaired by \$17 million to a carrying value of \$14 million, and an unpaid deferred distribution from WICET of \$4 million was fully impaired.

The Group does not have a standardised and universal credit period granted to its customers, and the credit period of individual customer is considered on a case-by-case basis, as appropriate. The following is an aged analysis of trade receivables based on the invoice dates at the reporting dates:

## C Operating Assets and Liabilities (continued)

### C8 Trade and other receivables (continued)

The following is an aged analysis of trade receivables based on the invoice dates at the reporting dates:

	31 December 2019 \$M	31 December 2018 \$M
0-90 days	265	439
91-180 days	10	-
181-365 days	-	2
Over 1 year	1	1
Total	<u>276</u>	<u>442</u>

#### (a) Past due but not impaired

The ageing analysis of the Group's and the Company's trade receivables, that were past due but not yet impaired as at 31 December 2019 and 2018, is as follows:

	31 December 2019 \$M	31 December 2018 \$M
0-90 days	21	3
91-180 days	10	-
181-365 days	-	2
Over 1 year	1	1
Total	<u>32</u>	<u>6</u>

The Group does not hold any collateral over these balances. Management closely monitors the credit quality of trade receivables and considers the balance that are neither past due or impaired to be of good quality.

#### (b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note D9.

#### (c) Fair value and credit risk

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note D9 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

## C9 Inventories

### Accounting Policy

Coal stocks are stated at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overheads on the basis of normal mining capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of auxiliary materials, spare parts, small tools, and fuel expected to be used in production are stated at weighted average cost after deducting rebates and discounts less allowance, if necessary, for obsolescence.

## C Operating Assets and Liabilities (continued)

### C9 Inventories (continued)

	31 December 2019 \$M	31 December 2018 \$M
Coal - at lower of cost or net realisable value	171	136
Tyres and spares - at cost	86	86
Fuel - at cost	4	4
	<b>261</b>	<b>226</b>

#### (a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2019 amounted to \$3 million (2018: \$1 million). The movement in the provision has been included in "Changes in inventories of finished goods and work in progress" in the profit or loss.

### C10 Royalty receivable

#### Accounting Policy

The royalty receivable is revalued at each reporting period based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates. Gains or losses arising from changes in the re-measurement of the fair value of the royalty receivable are recognised in profit or loss. The cash receipts are recorded against the royalty receivable which will be decreased over time. Since the term of the contract is greater than 12 months, unwinding of the discount, to reflect the time value of money, for the asset is recognised as interest revenue.

#### Critical accounting estimates and judgements

The fair value of the royalty receivable is estimated based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates.

	31 December 2019 \$M	31 December 2018 \$M
Opening balance	193	199
Cash received / receivable	(19)	(31)
Unwinding of the discount	20	21
Re-measurement of royalty receivable	32	4
	<b>226</b>	<b>193</b>
<b>Split between:</b>		
Current	21	28
Non-current	205	165
	<b>226</b>	<b>193</b>

A right to receive a royalty of 4% of Free on Board Trimmed sales from the Middlemount mine was acquired as part of the merger with Gloucester Coal Ltd. This asset has been determined to have a finite life being the life of the Middlemount Mine and is measured on a fair value basis. During 2019 the increase in the royalty receivable was primarily due to an extension to the Middlemount life of mine by 7 years to 2038 as a result of the increased life of mine ROM tonnes including an additional mine area.

## C Operating Assets and Liabilities (continued)

### C10 Royalty receivable (continued)

#### (a) Risk exposure and fair value measurements

Information about the Group's exposure to price risk, foreign exchange risk and methods and assumptions used in determining fair value of the royalty receivable is provided in Note D9.

### C11 Trade and other payables

#### Accounting Policy

Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of trade and other payables.

Liabilities for payroll costs payable include employee benefits for wages, salaries, annual leave and accumulating sick leave that are expected to be wholly settled within 12 months of the reporting date represent undiscounted present obligations resulting from employees' services provided to the reporting date including related on costs, such as superannuation, workers compensation, insurance and payroll tax. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits using corporate bond rates with terms that match the expected timing of cash out flows. In determining the liability, consideration is given to employee salary and wage increases and the probability that the employee may satisfy any vesting requirements

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Trade payables	<b>387</b>	423
Payroll costs payable	<b>103</b>	100
Other payables	<b>148</b>	209
Tax sharing and funding payables to Watagan	<b>164</b>	108
	<b>802</b>	840

The following is an aging analysis of trade payables based on the invoice dates at the reporting date:

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
0-90 days	<b>383</b>	421
91-180 days	-	1
181-365 days	-	1
Over 1 year	<b>4</b>	-
Total	<b>387</b>	423

The average credit period for trade payable is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

## C Operating Assets and Liabilities (continued)

### C12 Provisions

#### Accounting Policy

Provisions are:

- recognised when the Group has a legal or constructive obligation as a result of a past event; it is probable that cash will be required to settle the obligation, and the amount can be reliably estimated.
- measured at the present value of management's best estimate at reporting date of the cash outflow required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability where the time value is material. Any increase in the provision due to the passage of the time is recognised as an interest expense.

2019	Sales					Total \$M
	Employee benefits \$M	contract provision \$M	Rehab- ilitation \$M	Take or pay \$M	Other provisions \$M	
Opening net book amount	74	71	254	45	78	522
Charged / (credited) to profit or loss						
- unwinding of discount	-	3	4	2	-	9
- release of the provision	-	(17)	-	(14)	(12)	(43)
Re-measurement of provisions	8	-	92	-	-	100
Closing net book amount	82	57	350	33	66	588
<b>Split between:</b>						
<b>Current</b>	7	10	-	12	1	30
<b>Non-current</b>	75	47	350	21	65	558
<b>Total</b>	82	57	350	33	66	588

## C Operating Assets and Liabilities (continued)

### C12 Provisions (continued)

Provision	Description
Employee benefits	<p>The provision for employee benefits represents long service leave and annual leave entitlements and other incentives accrued by employees.</p> <p>Long service leave payments are made monthly to the Coal Mining Industry (Long Service Leave Funding) Corporation based on the eligible monthly payroll of employees involved in the mining of black coal. Reimbursement is sought from the fund when long service leave is paid to employees involved in the mining of black coal. An asset for the amount recoverable from the Coal Mining Industry (Long Service Leave Funding) Corporation is recognised in trade and other receivables.</p>
Rehabilitation costs	<p>Mining lease agreements and exploration permits impose obligations on the Group to rehabilitate areas where mining activity has taken place. Rehabilitation of these areas is ongoing and in some cases will continue until 2064. The provision for rehabilitation costs has been calculated based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies.</p> <p><b>Key estimate and judgement:</b></p> <p>The rehabilitation provision has been created based on managements' internal estimates and assumptions relating to the current economic environment, which management believes is a reasonable basis upon which to estimate the future liability.</p> <p>These estimates are reviewed regularly to take into account any material changes to the assumptions, however actual rehabilitation costs will ultimately depend upon the future market prices for the necessary decommissioning works and the timing of when the rehabilitation costs are incurred. Timing is dependent upon when the mines cease to produce at economically viable rates, which in turn, will depend upon future coal prices, which are inherently uncertain.</p>
Take or pay	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. Take or pay is the assessment of forecast excess capacity for port and rail contracts. A provision was recognised for the discounted estimated excess capacity. The provision has a finite life and will be released to profit or loss over the period in which excess capacity is realised.</p> <p><b>Key estimate and judgement:</b></p> <p>The provision is recognised and estimated based on management's assessment of contracted port capacity versus forecast usage. This involves making assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.</p>
Sales contract	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 <i>Business Combinations</i>. The sales contract provision is the assessment of a coal supply and transportation agreement to supply coal to BLCP Power Limited in Thailand at below market prices. A provision was recognised for the discounted estimated variance between contract and market prices. The provision has a finite life and will be released to profit or loss over the contract term.</p> <p><b>Key estimate and judgement:</b></p> <p>The provision is recognised and estimated based on management's assessment of future market prices.</p>

## C Operating Assets and Liabilities (continued)

### C12 Provisions (continued)

Other provisions	<p>The provision includes marketing services fee payable to Noble Group Limited deemed above market norms, contingent royalties payable to Rio Tinto Plc assessed as part of the Coal &amp; Allied Industries Ltd ("Coal &amp; Allied") acquisition in 2017 which will be amortised over the contract term, and make good provisions to cover the cost to 'make good' any hired equipment, in case any major overhaul costs are incurred at the end of the lease period.</p> <p><b>Key estimate and judgement:</b></p> <p>The provision is recognised and estimated based on management's assessment of future market prices of coal.</p>
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### C13 Asset classified as held for sale

#### Accounting Policy

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale or loss of control transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale or disposal in its present condition subject only to terms that are usual and customary for sales or disposals of such assets (or disposal group) and the transaction is highly probable. Management must be committed to the transaction, which should be expected to qualify for recognition as a completed transaction within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

	31 December 2019 \$M	31 December 2018 \$M
<b>Current assets</b>		
Land held for sale (i)	45	57

#### (i) Land held for sale

The land held for sale are to parcels of non-mining land located in the Lower Hunter Valley that is held for future sale. These were acquired as part of the acquisition of Coal & Allied at fair value.

On 24 May 2019 a subsidiary of the Company and member of the Group sold a property at Black Hill NSW for \$12 million. There was no gain or loss recognised on this sale as this amount was previously recognised as an asset held for sale associated with the acquisition of Coal & Allied Industries Ltd in 2017.

## D Capital Structure and Financing

The ability of the Group to fund the investment in its ongoing activities, invest in new opportunities and meet current commitments is dependent on available cash and access to third party capital. This section contains disclosure on interest-bearing liabilities, contingencies, financial risk management, reserves, share based payments and contributed equity that are required to finance the Group's activities.

## D Capital Structure and Financing (continued)

### D1 Interest-bearing loan to associate

<b>Accounting Policy</b>	
<p>Financial assets classified as loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities 12 months after the reporting period which are classified as non-current assets. Refer to Note F6(b) for detailed policies in relation to recognition, measurement, impairment and derecognition of interest-bearing loan to associate.</p>	
<b>Critical accounting judgements and estimates</b>	
<p><i>Determining when a significant increase in credit risk has occurred</i></p> <p>AASB 9 requires all long term financial asset loans to have the general ECL method applied when assessing the loan receivable for impairment. The general method requires Yancoal to assess whether or not a significant increase in credit risk (since the origination of the loan) has occurred. Judgment is required when performing this assessment given the tenor of the loan, the counterparty and the business that it operates in. Where a significant increase in credit risk is identified the ECL calculation will be performed on a life to date basis rather than for the next 12 months only.</p>	<p><i>Yancoal application</i></p> <p>In determining if there is a significant increase in credit risk associated with the Watagan loan Yancoal consider:</p> <ul style="list-style-type: none"> <li>• the Watagan life of mine plans;</li> <li>• 5 year plans and annual budgets; and</li> <li>• life of mine financial models including 13 month cash flow forecasts.</li> </ul> <p>Yancoal compares the current forecasts against the same information at loan origination to determine whether or not there has been a significant increase in credit risk.</p>
<p><i>Measuring the 12 month and lifetime ECL exposure</i></p> <p>For financial assets judgement is involved in determining the ECL provision. The Group calculates ECL as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate over either a time period of 12 months from the reporting date or the maximum contracted life of the loan exposure.</p>	<p><i>Yancoal application</i></p> <p>The contracted loan maturity date is 1 April 2025 and management exercises judgement in forecasting the anticipated future loan drawdowns by Watagan on the committed but undrawn component of the loan.</p> <p>Similarly, management exercises judgement in determining the anticipated future cash flows to be received during the term of the loan, and assesses the enforceability and recoverability under the Yankuang Guarantee.</p>
<p><i>Forward looking information and probability of default</i></p> <p>Judgement is required to determine what appropriate forward looking information should be factored into the provision e.g. economic factors associated with the Watagan's business. Associated with this forward-looking information the Group would need to assign a probability that the counterparty would default under each scenario used. Forward looking information and probability of default are judgments that are determined on the date of the reporting period, without the benefit of hindsight.</p>	<p><i>Yancoal application</i></p> <p>In assessing future scenarios Yancoal adopts the same third party data as set out in Note C3 regarding the impairment of assets including coal prices and foreign exchange rates.</p> <p>If required Yancoal seek external third party credit rating agency probability of default data and extrapolates from that the specific circumstances regarding the Watagan loan to determine an appropriate probability of default for each scenario being considered.</p>
<p>For further details on Watagan refer also to Note E2</p>	

## D Capital Structure and Financing (continued)

### D1 Interest-bearing loan to associate (continued)

	31 December 2019 \$M	31 December 2018 \$M
Opening balance	835	712
Repayments	(227)	(254)
Drawdowns	293	377
Closing balance	<u>901</u>	<u>835</u>

On 31 March 2016, the Group transferred its interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines, to Watagan for a purchase price of \$1,363 million. The purchase price was funded by way of a \$1,363 million loan from Yancoal Australia Ltd to Watagan bearing interest of BBSY plus 7.06% with a maturity date of 1 April 2025. Yankuang Group Co., Ltd ("Yankuang"), the Group's ultimate parent entity, guarantees payment of any amount owed to Yancoal Australia Ltd under the loan if Watagan does not pay Yancoal Australia Ltd such amount when due. Watagan can make prepayments of the outstanding loan balance with any such prepayment capable of redraw in the future.

At 31 December 2019, it was determined that due to the deterioration in the current and forecast operating results of Watagan there had been a significant increase in credit risk of the loan at the reporting date compared to the credit risk at inception of the loan. On this basis, the Group has changed the ECL calculation for the Watagan loan from an allowance for 12 month ECLs to an allowance for lifetime ECLs.

Having regard to the calculation of lifetime ECL the directors have considered the enforceability of the Yankuang guarantee noted above and have received written confirmation from Yankuang re-confirming that they remain bound by the Guarantee and will honour their obligations under it. The directors have also considered Yankuang's financial position and are satisfied that Yankuang has the necessary financial resources to fulfil the guarantee.

Based on the above, the lifetime ECL on the Watagan loan at 31 December 2019 is determined to be nil.

If no such reliance was able to be placed on the Yankuang guarantee it is considered highly likely that a material lifetime ECL would be recognised.

### D2 Interest-bearing liabilities

#### Accounting Policies

##### (i) Interest-bearing liabilities

Interest-bearing liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. US dollar interest-bearing loans are designated as a hedge instrument in a cash flow hedge (refer to note D7). Refer to Note F6(b) for detailed policies in relation to recognition, classification, measurement and derecognition of interest-bearing liabilities.

##### (ii) Leases

For capitalised leases the corresponding minimum lease payments are included in lease liabilities. Each lease payment is allocated between finance cost and a reduction in the outstanding lease liability. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period, refer Note F7 for further details.

## D Capital Structure and Financing (continued)

### D2 Interest-bearing liabilities (continued)

	31 December 2019 \$M	31 December 2018 \$M
<b>Current</b>		
Secured bank loans	1,236	-
Lease liabilities	31	13
	<u>1,267</u>	<u>13</u>
<b>Non-current</b>		
Secured bank loans	1,004	2,572
Lease liabilities	63	29
Unsecured loans from related parties	1,164	1,510
	<u>2,231</u>	<u>4,111</u>
<b>Total interest-bearing liabilities</b>	<u>3,498</u>	<u>4,124</u>

#### Reconciliation of liabilities arising from financing activities

	Lease liabilities \$'M	Loans from related parties \$'M	Secured bank loan \$'M
Opening balance at 31 December 2018	42	1,510	2,572
Additions	87	-	-
Repayments	(38)	(349)	(349)
Termination	(4)	-	-
Unwind of interest expenses	7	-	-
Unwind of non-substantial loan modification	-	-	-
Foreign exchange movements	-	3	17
Closing balance at 31 December 2019	<u>94</u>	<u>1,164</u>	<u>2,240</u>

As a result of a refinancing during 2017 a non-substantial loan modification adjustment was recognised in line with AASB 9: *Financial Instruments*. At 31 December 2019 the remaining balance to be amortised in finance costs is \$8 million (31 December 2018: \$13 million). This amount will continue to amortise up to the date of maturity, at which time the full face value of the secured bank loans will be recognised.

#### (a) Secured bank loans

The secured bank loans are made up of the following facilities:

	31 December 2019			31 December 2018	
	Facility US \$M	Facility \$M	Utilised \$M	Facility \$M	Utilised \$M
<b>Secured bank loans</b>					
Syndicated Facility (i)*	1,275	1,820	1,820	2,161	2,161
Syndicated Term Loan (ii)	300	428	428	425	425
	<u>1,575</u>	<u>2,248</u>	<u>2,248</u>	<u>2,586</u>	<u>2,586</u>

\* Facility balance excludes the remaining fair value adjustment balance of AU\$8 million recorded at 31 December 2019 (31 December 2018: AU\$13 million).

## D Capital Structure and Financing (continued)

### D2 Interest-bearing liabilities (continued)

#### (a) Secured bank loans (continued)

##### (i) Syndicated Facility

In 2009 a Syndicated loan facility of US\$2,600 million was taken out and fully drawn down to fund the acquisition of the Felix Resources Group. During 2014, the Syndicated Facility was extended with repayments due in 2020, 2021 and 2022. During 2019 US\$250 million (31 December 2018: US\$925 million) was repaid reducing the facility to US\$1,275 million (31 December 2018: US\$1,525 million).

Security is held over these loans in the form of a corporate guarantee issued by the Company's majority shareholder, Yanzhou Coal Mining Company Limited ("Yanzhou"), for the full amount of the facility.

The Syndicated Facility includes the following financial covenants to be tested half-yearly:

- (a) The interest cover ratio is greater than 1.40;
- (b) The gearing ratio of the Group will not exceed 0.75; and
- (c) The consolidated net worth of the Group are greater than AU\$3,000 million.

The calculation of the above covenants include certain exclusions with regard to unrealised gains and losses including foreign exchange gains and losses.

The Syndicated Facility include the following minimum balance requirements to be satisfied daily and at each end of month:

- (a) The Company is to maintain in the Lender Accounts an aggregate daily average balance of not less than AU\$25 million, this is tested at the end of each month, and;
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AU\$50 million.

There was no breach of covenants at 31 December 2019.

##### (ii) Syndicated Term Loan

In 2018 a Syndicated Term Loan of US\$300 million was taken out and all proceeds were used to partially repay the Syndicated Facility.

The Syndicated Term Loan is secured by the assets of the aggregated group of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$6,435 million.

The Syndicated Term Loan includes the following financial covenants based on the aggregated results of Yancoal Resources Ltd Group and Coal & Allied Group to be tested half-yearly:

- (a) The interest cover ratio is greater than 5.0 times;
- (b) The finance debt to EBITDA ratio is less than 3.0 times; and
- (c) The net tangible assets is greater than AU\$1,500 million.

There was no breach of covenants at 31 December 2019.

#### (b) Bank guarantee facilities

Yancoal are party to the following bank guarantee facilities which have been issued for operational purposes in favour of port, rail, government departments and other operational functions:

## D Capital Structure and Financing (continued)

### D2 Interest-bearing liabilities (continued)

#### (b) Bank guarantee facilities (continued)

Provider	US \$M	AU \$M	Utilised AU \$M	Security
Syndicate of seven Australian and international banks*	-	1,000	885	Secured by the assets of the consolidated groups of Yancoal Resources Ltd and Coal & Allied Industries Ltd with carrying value of \$6,435 million. Facility expires on 23 August 2021.
Bank of China*	25	36	36	Unsecured facility expires on 27 December 2020.
<b>Total</b>	<b>25</b>	<b>1,036</b>	<b>921</b>	

\* This facility can be drawn in both A\$ and US\$.

The Syndicated Bank Guarantee Facility includes the same financial covenants as the Syndicated Term Loan.

The Bank of China bank guarantee facility includes the same financial covenants as the Syndicated Facility.

#### (c) Unsecured loans from related parties

In December 2014, the Company successfully arranged two long term loan facilities from its majority shareholder, Yanzhou repayable on 31 December 2024.

- Facility 1: AU\$1,400 million - the purpose of the facility is to fund working capital and capital expenditure. The facility can be drawn in both AUD and USD. During the period no additional amounts have been drawn down and US\$250 million was repaid (31 December 2018: repaid US\$9 million). US\$573 million (AU\$817 million) was drawn as at 31 December 2019 (31 December 2018: US\$823 million (AU\$1,166 million)).
- Facility 2: US\$243 million - initially the facility totalled US\$807 million with the purpose of the facility being to fund the coupon payable on subordinated capital notes. On 31 January 2018 all remaining SCN's were redeemed limiting the facility to the current drawn amount US\$243 million. During the period no amount has been drawn down or repaid. In total US\$243 million (AU\$347 million) was drawn as at 31 December 2019 (31 December 2018: US\$243 million (AU\$344 million)).

Both the facilities have a term of ten years (with the principal repayable at maturity) and are provided on an unsecured and subordinated basis with no covenants.

### D3 Non-contingent royalty

#### Accounting Policy

In acquiring part of a business or operation, an assessment was made of the fair value of the assets and liabilities under AASB 3 *Business Combinations*. The non contingent royalty was fair valued on initial recognition and payable in US dollars so subject to foreign exchange movements. The amount has a finite life with any discounting and foreign exchange released to profit or loss over the contract term. Refer to Note F6 for detailed policies in relation to recognition, classification, measurement and derecognition of non-contingent royalty.

## D Capital Structure and Financing (continued)

### D3 Non-contingent royalty (continued)

	Asset		Liability	
	31 December 2019 \$M	31 December 2018 \$M	31 December 2019 \$M	31 December 2018 \$M
Opening balance	15	-	52	160
Initial recognition	-	87	-	-
Receipts/payments	(8)	(75)	(28)	(119)
Unwind of discount	1	1	3	5
Foreign exchange	-	2	-	6
Closing balance	<u>8</u>	<u>15</u>	<u>27</u>	<u>52</u>
Current	4	7	13	25
Non-current	4	8	14	27
<b>Total</b>	<u>8</u>	<u>15</u>	<u>27</u>	<u>52</u>

As part of the acquisition of Coal & Allied on 1 September 2017 US\$240 million of the purchase price is to be paid over five years from completion. During 2019 US\$20 million (2018: US\$90 million) of the non-contingent royalties were paid.

As part of the Glencore acquisition of the 16.6% interest in HVO, Glencore will pay to Yancoal 27.9% of the paid and future payable non-contingent royalty payments.

### D4 Contributed equity

#### Accounting Policy

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Costs directly attributable to the issue of new shares, options or other equity instrument are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration. Refer to Note F6(b) for detailed policies in relation to recognition, classification and measurement of contributed equity.

#### (a) Contributed equity

	31 December 2019 Number	31 December 2018 Number	31 December 2019 \$M	31 December 2018 \$M
<i>(i) Share capital</i>				
Ordinary shares (note D4(b))	1,320,439,437	1,320,439,437	6,219	6,219
<i>(ii) Other equity securities</i>				
Contingent value right shares			263	263
			<u>263</u>	<u>263</u>
<b>Total contributed equity</b>			<u>6,482</u>	<u>6,482</u>

## D Capital Structure and Financing (continued)

### D4 Contributed equity (continued)

#### (a) Contributed equity (continued)

##### (iii) Movements in contributed equity

	31 December 2018 \$M Ordinary shares	31 December 2018 \$M Other share capital
Opening balance	5,953	1
Subordinated capital notes converted to ordinary shares	-	-
Ordinary shares issued under entitlement offer	-	(1)
Ordinary shares issued under institutional placement	268	-
Transaction costs, net of tax	(2)	-
<b>Closing balance</b>	<b>6,219</b>	<b>-</b>

There was no movement during 2019.

##### (iv) Movements of Ordinary Share Capital

	31 December 2019 Number	31 December 2018 Number
Opening balance	1,320,439,437	43,959,446,612
Ordinary shares issued under institutional offer	-	59,441,900
Ordinary shares issued under retail entitlement offer	-	563,881
Ordinary shares to be issued under over allotment option	-	4,361,900
Subordinated capital notes converted to ordinary shares	-	3,015,976
Share consolidation	-	(42,706,390,832)
Ending balance	<b>1,320,439,437</b>	<b>1,320,439,437</b>

#### (b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

A share consolidation of 35 ordinary shares to 1 ordinary share of the Company was completed on 28 September 2018.

As announced on 29 November 2018 the Company launched a Global Offering in connection with its dual listing on the Hong Kong Stock Exchange which commenced on 6 December 2018. On 6 December 2018 the Company issued 59,441,900 new shares under the Global Offering, on 28 December 2018 563,881 new shares were issued under the Retail Entitlement offer and on 3 January 2019 4,361,900 new shares under partial exercise of the Over Allotment Option, all in connection with the dual listing for HK\$23.48 per New Share. The total amount raised was AU\$268 million and AU\$37 million of issue costs were incurred of which AU\$8 million was capitalised.

## D Capital Structure and Financing (continued)

### D4 Contributed equity (continued)

#### (c) Contingent value right shares

The contingent value right ("CVR") shares were repurchased on 4 March 2014 for cash of \$263 million representing the market value of \$3.00 cash per CVR share.

#### (d) Capital risk management

Total capital comprises total equity as shown on the balance sheet plus total interest bearing liabilities less cash and cash equivalents. The Group's primary objectives when managing capital are to ensure the continued ability to provide a consistent return for equity stakeholders through a combination of capital growth and distributions and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve these objectives, the Group seeks to maintain a debt to debt plus equity ratio (gearing ratio) that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or other equity instruments, repay debt or draw down additional debt.

The gearing ratios at 31 December 2019 and 31 December 2018 were as follows:

	Notes	31 December 2019 \$M	31 December 2018 \$M
Total interest-bearing liabilities	D2	3,498	4,124
Less: cash and cash equivalents	C7	(962)	(1,031)
Net debt		<u>2,536</u>	<u>3,093</u>
Total equity		<u>6,163</u>	5,838
Total capital		<u>8,699</u>	<u>8,931</u>
<b>Gearing ratio</b>		<b>29.2%</b>	34.6%

Refer to Note D2 for the Group's compliance with the financial covenants of its borrowing facilities.

### D5 Share-based payments

#### Accounting Policy

Refer to Note B4(iv) for the accounting policy on share-based payments.

Generally, participation in the Share Based Payment program (Long Term Incentive Program, "LTIP") by the issuing of Rights is limited to Senior Executives of the Group. All Rights are redeemable on a one-for-one basis for the Group's shares, subject to the achievement of performance hurdles. Dividends are not payable on Rights. For more information on the operation of the LTIP refer to the Remuneration report.

## D Capital Structure and Financing (continued)

### D5 Share-based payments (continued)

Details	Date of measurement / grant	Number of Rights*	Date of Expiry	Conversion Price (\$)
Management performance rights				
2018 Short Term Incentive Plan ("2018 STIP")	31 December 2018	804,599	1 January 2020	Nil
2018 STIP	31 December 2018	804,599	1 January 2021	Nil
		1,609,198		
2018 Long Term Incentive Plan ("2018 LTIP")	30 May 2018	1,438,170	1 January 2021	Nil
2019 Long term incentive plan (2019 LTIP)	1 January 2019	2,161,669	1 January 2022	Nil
		3,599,839		

\* The number of rights issued has been adjusted by the 35:1 share consolidation which was completed on 28 September 2018.

	2019 No. of Rights	2018 No. of Rights
Balance at beginning of the year	3,093,010	-
Granted	2,161,669	4,309,438
Exercised during the year (i)	-	(1,185,203)
Cancellation of 2018 STIP (ii)	(1,609,198)	
Expired during the year	-	-
Forfeited during the year	(45,642)	(31,225)
<b>Balance at the end of year</b>	<b>3,599,839</b>	<b>3,093,010</b>

(i) In 2018 these rights relate to the SIS bonus, exercised on 1 September 2018. The weighted average closing price on the date immediately preceding exercise, 31 August 2018, adjusted for the share consolidation, was \$4.375.

(ii) The 2018 STIP has been transferred to other payables with the expectation of being cash settled in future periods.

#### Fair value of performance rights granted

The fair value of the LTIP performance rights has been determined using the following assumptions:

	2019 LTIP	2018 LTIP
Number of performance rights	2,161,669	1,438,170
Grant date	1 January 2019	30 May 2018
Post-consolidation share price at grant date (\$)	3.35	4.94
Expected dividend yield	8%	0%
Vesting conditions	(a)	(a)
Value per performance right (\$)	2.66	4.94

There are a maximum of 3,599,839 shares available for issue, which, if issued as new shares, would represent 0.2% of share capital in issue at 31 December 2019 (31 December 2018: 3,093,010 shares representing 0.2% of share capital).

## D Capital Structure and Financing (continued)

### D5 Share-based payments (continued)

The LTIP has been valued using the volume weighted average price of Yancoal's ordinary shares across a 10 day trading period before grant date.

(a) The LTIP performance rights will vest dependent upon the outcome of a cost and Earnings Per Share target. The rights are split 40% and 60% respectively to these conditions.

### D6 Dividends

#### (a) Dividends

	2019		2018	
	Cents per share	Total AU\$'M	Cents per share	Total AU\$'M
Final dividend for 2018 paid on 30 April 2019	28.55	377	-	-
Interim dividend for 2019 paid on 20 September 2019 (2018 interim paid on 21 September 2018)	10.35	137	10.35	130
		<u>514</u>		<u>130</u>

On 28 February 2020 the Directors declared an unfranked dividend of \$280 million (21.21 cents per ordinary share), with a record date of 16 March 2020 and payment date of 29 April 2020, which is between 50% of profit after tax, before abnormal items, and 50% of free cash flow consistent with the Company's constitution.

#### (b) Franking credits

	31 December 2019 \$M	31 December 2018 \$M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2018 - 30%)	14	8

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax and franking debits that will arise as a result of refunds of tax that are reflected in the current tax receivable balance at the reporting date;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

## D Capital Structure and Financing (continued)

### D7 Reserves

#### Accounting Policies

##### (i) Hedging reserve

When a financial instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the hedging reserve until the anticipated underlying transaction occurs. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, or is sold, terminated or expires, any accumulated gain or loss remains in equity until the forecast transaction is ultimately recognised in profit or loss. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is immediately recognised in profit or loss.

##### (ii) Employee compensation reserve

Shares held by the Group sponsored Employee Share Plan Trust are recognised as treasury shares and deducted from equity.

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

#### (a) Reserve balances

	31 December 2019 \$M	31 December 2018 \$M
Hedging reserve	(489)	(611)
Employee compensation reserve	5	7
	<u>(484)</u>	<u>(604)</u>

#### (b) Hedging reserve

The hedging reserve is used to record gains or losses on cash flow hedges that are recognised directly in equity through other comprehensive income.

The closing balance relates to the effective portion of the cumulative net change in the fair value of the natural cash flow hedge using the US dollar denominated interest-bearing liabilities to hedge against future coal sales.

#### Movements:

##### Hedging reserve - cash flow hedges

Opening balance	(611)	(413)
Fair value losses recognised on USD interest bearing liabilities	(15)	(443)
Recycled to profit or loss	190	160
Deferred income tax (expense) / benefit	(53)	85
Closing balance	<u>(489)</u>	<u>(611)</u>

**D Capital Structure and Financing (continued)**

**D7 Reserves (continued)**

**(b) Hedging reserve (continued)**

If interest-bearing liabilities that are a natural hedge to future coal sales are repaid prior to the original designated date the hedge gain/loss incurred prior to repayment will be released to the profit or loss in line with the original sales to which they were designated. This has resulted in the following pre-tax release profile as at 31 December 2019:

	2020 \$M	2021 \$M	2022 \$M	2023 \$M	2024 \$M	Total \$M
Hedge loss to be recycled in future periods	181	163	238	-	116	698
<i>Of which:</i>						
Hedges related to loans repaid prior to designated repayment date	-	61	238	-	36	335
Hedges related to loans yet to be repaid	181	102	-	-	80	363
						698
Deferred income tax expense						(209)
Closing balance						489

**(c) Employee compensation reserve**

The fair value of equity plans granted is recognised in the employee compensation reserve over the vesting period. This reserve will be reversed against treasury shares when the underlying shares vest and transfer to the employee at the fair value. The difference between the fair value at grant date and the amount received against treasury shares is recognised in retained earnings (net of tax).

During the period the movements related to any 2019 additional performance rights issued or forfeited as disclosed in Note D4 and new awards of performance rights were made during the period.

## D Capital Structure and Financing (continued)

### D8 Contingencies

#### Contingent liabilities

The Group had contingent liabilities at 31 December 2019 in respect of:

(i) *Bank guarantees*

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
<b>Parent entity and Group</b>		
Performance guarantees provided to external parties	151	208
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	135	113
	<b>286</b>	<b>321</b>
<b>Joint ventures (equity share)</b>		
Performance guarantees provided to external parties	160	144
Guarantees provided in respect of the cost of restoration of certain mining leases	285	236
	<b>445</b>	<b>380</b>
<b>Guarantees held on behalf of related parties (refer to Note E3(d) for details of beneficiaries)</b>		
Performance guarantees provided to external parties	106	119
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	84	55
	<b>190</b>	<b>174</b>
	<b>921</b>	<b>875</b>

(ii) *Letter of Support provided to Middlemount Coal Pty Ltd*

The Company has issued a letter of support dated 4 March 2015 to Middlemount Coal Pty Ltd ("Middlemount"), a joint venture of the Group confirming:

- it will not demand the repayment of any loan due from Middlemount, except to the extent that Middlemount agrees otherwise or as otherwise provided in the loan agreement; and
- it will provide financial support to Middlemount to enable it to meet its debts as and when they become due and payable, by way of new shareholder loans in proportion to its share of the net assets of Middlemount.

This letter of support will remain in force whilst the Group is a shareholder of Middlemount or until notice of not less than 12 months is provided or such shorter period as agreed by Middlemount.

(iii) *Other contingencies*

A number of claims have been made against the Group, including in respect of personal injuries, and in relation to contracts which Group members are party to as part of the Group's day to day operations. The personal injury claims which have been made against the Group have largely been assumed by the insurers of the Group under the Group's insurance policies. The Directors do not believe that the outcome of these claims will have a material impact on the Group's financial position.

## D Capital Structure and Financing (continued)

### D9 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes and not as speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, interest rate risk and other price risks, and aging analysis for credit risk.

The Group holds the following financial instruments:

- (i) Cash and cash equivalents;
- (ii) Trade and other receivables (including WIPS);
- (iii) Trade and other payables;
- (iv) Interest-bearing liabilities, including bank loans and leases;
- (v) Available-for-sale investments;
- (vi) Royalty receivable;
- (vii) Non-contingent royalty receivable;
- (viii) Non-contingent royalty payable;
- (ix) Derivative financial instruments; and
- (x) Interest-bearing loan from associate.

	31 December 2019 \$M	31 December 2018 \$M
<b>Financial assets</b>		
Cash and cash equivalent	962	1,031
<i>Loans and receivables - amortised cost</i>		
Trade and other receivables	735	844
Non-contingent royalty receivable	8	15
Interest bearing loan to associates	901	835
<i>Assets at fair value through profit and loss</i>		
Royalty receivable	226	193
WIPS	-	-
	<b>2,832</b>	<b>2,918</b>
<b>Financial liabilities</b>		
<i>Amortised cost</i>		
Trade and other payables	806	840
Interest-bearing liabilities	3,498	4,124
Non-contingent royalty payable	27	52
	<b>4,331</b>	<b>5,016</b>

The Board of Directors has overall responsibility for determining risk management objectives and policies and risk management is carried out by the Group Audit and Risk Management department along with the Group Treasury department. The Board provides written principles for overall risk management, as well as policies covering specific areas such as the use of derivative financial instruments to mitigate foreign exchange risk. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation.

The overall objective of the Board is to set policies that seek to reduce risk and volatility in financial performance without unduly affecting competitiveness and flexibility. Further details regarding these policies are set out below.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, securities prices, and coal prices, will affect the Group's income or the value of its holdings of financial instruments.

##### (i) Foreign exchange risk

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement.

The hedging policy of the Group aims to protect against the volatility of cash expenditures or reduced collection in the above mentioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

##### *Hedging through bank issued instruments*

Operating foreign exchange risk that arises from firm commitments or highly probable transactions are managed through the use of bank issued forward foreign currency contracts. The Group hedges a portion of contracted US dollar sales receivables and asset purchases settled in foreign currencies in each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income in the hedging reserve until the anticipated underlying transaction occurs. Once the anticipated underlying transaction occurs, amounts accumulated in equity are recycled through the profit or loss or recognised as part of the cost of the asset to which it relates. The ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised immediately in the profit or loss. In the current period, the loss relating to the ineffective portion was \$nil (2018: \$nil).

##### *Natural cash flow hedge*

The Group currently does not use bank issued instruments to hedge foreign exchange risks in respect of US dollar denominated loans, however, the scheduled repayment of the principal on US dollar loans is designated to hedge the cash flow risks on the portion of forecast US dollar sales that are not hedged through bank issued instruments ("natural cash flow hedge"). US dollar loan repayments up to a six-month period are designated to hedge the forecast US dollar sales during the same period after the designation of the hedge relationship based on a dollar for dollar basis until the hedge ratio reaches one.

Hedging effectiveness is determined by comparing the changes in the hedging instruments and hedged sales. Hedge ineffectiveness will occur when cash flows generated by sales transactions are lower than the forecast sales transaction. In cases of hedge ineffectiveness, gains or losses in relation to the excess portion in the foreign exchange movement of the designated US dollar loan repayment will be recycled to profit or loss. The effective portion of changes in the hedging instruments will be recognised in the cash flow hedge reserve in Other Comprehensive Income. When the sales transactions occur, amounts accumulated in equity are recycled through the profit or loss as an increase or decrease to sales revenue.

##### *Royalty receivable*

The royalty receivable from the Middlemount Joint Venture is estimated based on expected future cash flows that are dependent on sales volumes, US dollar denominated coal prices and the US dollar foreign exchange rate (refer to Note C10).

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Foreign exchange risk (continued)

###### Other assets

Other assets include the promissory note receivable as discussed in Note C8(i).

###### Non contingent royalty payable and receivable

As part of the acquisition of Coal & Allied in 2017 the Company has agreed to make deferred non-contingent royalty payments to Rio Tinto Plc ("Rio Tinto") in US dollars. As described in Note D3 27.9% of non-contingent royalty payable is received from Glencore.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	31 December 2019		31 December 2018	
	USD \$M	HKD \$M	USD \$M	HKD \$M
Cash and cash equivalents	641	73	560	189
Trade and other receivables	241	-	375	-
Derivative financial instruments	1	-	-	-
Other assets	-	-	48	-
Royalty receivable	226	-	193	-
Non-contingent royalty receivable	8	-	15	-
Trade and other payables	(163)	-	(295)	-
Interest bearing liabilities	(3,412)	-	(4,096)	-
Non-contingent royalty payable	(27)	-	(52)	-
Net Exposure	<b>(2,485)</b>	<b>73</b>	<b>(3,252)</b>	<b>189</b>

###### Sensitivity

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonable possible change in the US dollar exchange rate. The Group's exposure to other foreign exchange movements is not material. The Group has used the observed range of actual historical rates for the preceding five year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements to be used for the current year's sensitivity analysis. Past movements are not necessarily indicative of future movements. A 10% depreciation/appreciation of the Australian dollar against the US dollar would have (decreased)/increased equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Foreign exchange risk (continued)

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit before income tax \$M	Equity \$M	Profit before income tax \$M	Equity \$M
<b>2019</b>				
Cash and cash equivalents	79	-	(65)	-
Trade and other receivables	27	-	(22)	-
Royalty receivable	22	-	(18)	-
Non-contingent royalty receivable	1	-	(1)	-
Other assets	1	-	(1)	-
Total increase / (decrease) in financial assets	<u>130</u>	-	<u>(107)</u>	-
Trade and other payables	(13)	-	10	-
Interest-bearing liabilities	-	(379)	-	310
Non-contingent royalty payable	(3)	-	3	-
Total (increase) / decrease in financial liabilities	<u>(16)</u>	<u>(379)</u>	<u>13</u>	<u>310</u>
Total increase / (decrease) in profit before tax and equity	<u>114</u>	<u>(379)</u>	<u>(94)</u>	<u>310</u>
<b>2018</b>				
Cash and cash equivalents	58	-	(48)	-
Trade and other receivables	29	-	(24)	-
Non-contingent royalty receivable	19	-	(16)	-
Other assets	4	-	(3)	-
Total increase / (decrease) in financial assets	<u>110</u>	-	<u>(91)</u>	-
Trade and other payables	(23)	-	19	-
Interest-bearing liabilities	-	(319)	-	261
Non-contingent royalty payable	(4)	-	4	-
Total (increase) / decrease in financial liabilities	<u>(27)</u>	<u>(319)</u>	<u>23</u>	<u>261</u>
Total increase / (decrease) in profit before tax and equity	<u>83</u>	<u>(319)</u>	<u>(68)</u>	<u>261</u>

Equity movements above reflect movements in the hedge reserve due to foreign exchange movements on USD interest bearing loans.

##### (ii) Price risk

The price risk of the Group include coal price risk.

The Group does not enter into commodity contracts other than to meet the Group's expected usage and sales requirements, such contracts are not settled net. The royalty receivables from Middlemount is exposed to fluctuations in coal price. The Group currently does not have any derivative hedges in place against the movement in the spot coal price. Refer to Note D9(d)(iii) for the royalty receivable coal price sensitivity analysis.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Price risk (continued)

Coal sales are predominately provisionally priced initially. Provisionally priced sales are those for which price finalisation, referenced to the relevant index, is outstanding at the reporting date. Provisional pricing mechanisms embedded within these sales arrangements have the character of a commodity derivative and are carried at fair value through profit and loss as part of trade receivables. The final sales price is determined normally 7 to 90 days after delivery to the customer. At 31 December 2019 there are \$114 million of provisionally priced sales. If coal prices were to increase by 10% provisionally priced sales would increase by \$11 million.

##### (iii) Interest rate risk

The Group is subject to interest rate risk that arises from borrowings, cash and cash equivalents and interest-bearing loan to associate. Generally, no variable interest is receivable or payable on the Group's trade and other receivables or payables where applicable as they are fixed in nature and therefore they are not exposed to the interest rate risk.

The Group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Floating rate borrowings bearing LIBOR rates are re-set on a quarterly basis.

The Group's exposure to interest rate risk and the weighted average interest rate is set out as below:

	31 December 2019		31 December 2018	
	Weighted average interest rate %	Balance \$M	Weighted average interest rate %	Balance \$M
Cash and cash equivalents	1.5	962	1.4	1,030
Bank loans and other borrowings	5.9	2,240	5.9	2,572
Interest-bearing loan to associate	8.6	901	9.1	835

##### Sensitivity

The following table summarises the sensitivity of the Group's significant financial assets and liabilities to changes in variable interest rates. This sensitivity is based on reasonably possible changes, determined using observed historical interest rate movements for the preceding five year period, with a heavier weighting given to more recent market data. Past movements are not necessarily indicative of future movements. For financial assets, a 25 basis point (decrease) / increase in interest rates would have (decreased) / increased equity and profit or loss after tax by the amounts shown below. For financial liabilities, a 25 basis point (decrease) / increase in interest rates would have increased / (decreased) equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

	-25 bps		+25 bps	
	Profit after income tax \$M	Equity \$M	Profit after income tax \$M	Equity \$M
<b>2019</b>				
Cash and cash equivalents	(2)	-	2	-
Interest-bearing loan to associate	(2)	-	2	-
Interest-bearing liabilities	4	-	(4)	-
	-	-	-	-
<b>2018</b>				
Cash and cash equivalents	(1)	-	1	-
Interest-bearing loan to associate	(1)	-	1	-
Interest-bearing liabilities	5	-	(5)	-
	3	-	(3)	-

#### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2019 the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the Consolidated Balance Sheet and the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note D8.

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The Group maintains its cash and cash equivalents with reputable banks. Therefore, the Directors consider that the credit risk for such amounts are minimal.

In assessing the Expected Credit Losses ("ECL") of trade receivables management assesses historical write offs of trade receivables, aging of debtors and whether sufficient credit enhancement is provided by customers (letters of credit and bank guarantees). If the aging of trade receivables significantly increased then the recognition of ECL would need to be reassessed.

Receivables will only be written off if there is demonstrable evidence that there is no reasonable expectation of recovery.

There was no provision apart from Note D1 for lifetime or 12 month ECL recognised for trade receivables as at 31 December 2019 as there are minimal aged debts.

The credit risk on cash and cash equivalents is limited as the counterparties are banks with credit-ratings assigned by international credit-rating agencies that are at least investment grade.

Credit risk in trade receivables is managed in the following ways:

- (i) payment terms and credit limits are set for individual customers;
- (ii) a risk assessment process is used for all customers; and
- (iii) letters of credit are required for those customers assessed as posing a higher risk.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (b) Credit risk (continued)

As disclosed in Note D2(a)(i) the minimum average balance of AU\$25 million per day and at month end AU\$50 million is required to be held in the Lender Accounts of the Syndicated Facility which is not available for use on those days.

Refer to Note D1 for details on the credit risk assessment on the interest-bearing loan to associate.

The maximum exposure to credit risk on financial assets which have been recognised in the balance sheet is their carrying amount less impairment provision, if any as set out below.

	31 December 2019 \$M	31 December 2018 \$M
Cash and cash equivalents	962	1,031
Trade and other receivables	735	844
Interest-bearing loan to associate	901	835
	<u>2,598</u>	<u>2,710</u>

Included in trade and other receivables are significant customers located in Australia and Hong Kong that account for 12% and 5% of trade receivables respectively (2018: Singapore 18%, Australia 17%, Japan 16%, and Taiwan 14%).

The top five customers included in trade receivables with the largest gross receivable balance as at 31 December 2019 account for 27% of trade receivables (2018: 33%).

#### (c) Liquidity risk

Liquidity risk includes the risk that the Group will not be able to meet its financial obligations as they fall due. The Group will be impacted in the following ways:

- (i) will not have sufficient funds to settle transactions on the due date;
- (ii) will be forced to sell financial assets at a value which is less than what they are worth; or
- (iii) may be unable to settle or recover a financial asset at all.

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note D2.

#### *Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities and interest payments for all liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows including interest payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (c) Liquidity risk (continued)

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total cash flows	Carrying amount
At 31 December 2019	\$M	\$M	\$M	\$M	\$M	\$M
<b>Non-derivatives</b>						
Trade and other payables	802	4	-	-	806	806
Non-contingent royalty	14	14	-	-	28	27
Lease liabilities	36	35	26	10	107	94
Other interest-bearing liabilities	1,437	1,134	1,409	-	3,980	3,404
<b>Total non-derivatives</b>	<b>2,289</b>	<b>1,187</b>	<b>1,435</b>	<b>10</b>	<b>4,921</b>	<b>4,331</b>
At 31 December 2018	\$M	\$M	\$M	\$M	\$M	\$M
<b>Non-derivatives</b>						
Trade and other payables	840	-	-	-	840	840
Non-contingent royalty	26	13	13	-	52	52
Lease liabilities	13	9	21	-	43	42
Other interest-bearing liabilities	306	1,524	1,778	1,660	5,268	4,082
<b>Total non-derivatives</b>	<b>1,185</b>	<b>1,546</b>	<b>1,812</b>	<b>1,660</b>	<b>6,203</b>	<b>5,016</b>

#### (d) Fair value measurements

##### (i) Fair value hierarchy

The Group uses various methods in estimating the fair value of financial instruments. AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2019 and 31 December 2018:

31 December 2019	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>Assets</b>				
Royalty receivable	-	-	226	226
WIPS	-	-	-	-
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>226</b>	<b>226</b>

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (d) Fair value measurements (continued)

##### (i) Fair value hierarchy (continued)

31 December 2018	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>Assets</b>				
Royalty receivable	-	-	193	193
WIPS	-	-	-	-
<b>Total assets</b>	-	-	193	193

##### (ii) Valuation techniques

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the royalty receivable and WIPS.

##### (iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2019:

	<b>31 December 2019 Royalty Receivable \$M</b>	31 December 2018 Royalty Receivable \$M
Opening balance	193	199
Cash received / receivable	(19)	(31)
Unwinding of the discount	20	21
Remeasurement of the royalty receivable recognised in profit and loss	32	4
Closing balance	<b>226</b>	193

##### Royalty receivable

The fair value of the royalty receivable is the fair value of the right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount Mine. The financial asset has a finite life being the life of the Middlemount Mine and will be measured on a fair value basis.

The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices and long term exchange rates are based on external data consistent with the data used for impairment assessments (refer to Note C3). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.0%.

The estimated fair value could increase significantly if the following unobservable inputs of sales volumes and coal prices were higher and if the Australian dollar weakens against the US dollar. The estimated fair value would also increase if the risk-adjusted discount rate was lower.

## D Capital Structure and Financing (continued)

### D9 Financial risk management (continued)

#### (d) Fair value measurements (continued)

##### *Sensitivity*

The following tables summarise the sensitivity analysis of royalty receivable. This analysis assumes that all other variables remain constant.

	<b>31 December 2019 Fair value increase/ (decrease) \$M</b>	31 December 2018 Fair value increase/ (decrease) \$M
<b>Coal price</b>		
+10%	21	15
-10%	(20)	(15)
<b>Exchange rates</b>		
+5 cents	(11)	(16)
-5 cents	13	16
<b>Discount rates</b>		
+50 bps	(7)	(4)
-50 bps	8	4

##### *WIPS*

The WIPS are entitled to an annual dividend of 15%, which can be deferred for up to seven years. Deferred dividends attract an annual finance charge of 15.75%. There is no scheduled maturity date but there are certain “remarketing dates” whereby the WIPS can be refinanced, the earliest of which is 2023. The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: internally maintained budgets and business plans of Wiggins Island Coal Export Terminal (“WICET”). The risk adjusted post tax discount rate used to determine the future cashflows is 11.0%. In 2018 the WIPS were reduced to nil.

#### *(iv) Fair values of other financial instruments*

The carrying amount is approximate to the fair value for the following:

- (i) Trade and other receivables
- (ii) Other financial assets
- (iii) Trade and other payables
- (iv) Interest-bearing liabilities

## **E Group Structure**

This section explains significant aspects of the Group's structure including interests in other entities, related party transactions, parent entity information, controlled entities and the deed of cross guarantee.

### **E1 Business combinations and disposals**

#### **Accounting Policies**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred including stamp duty. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain on acquisition of subsidiaries.

#### **Critical accounting estimates and judgements**

Accounting for acquisitions of businesses requires judgment and estimates in determining the fair value of acquired assets and liabilities. Techniques used to determine the fair value of acquired assets and liabilities include an income and cost approach for mining tenements and depreciated replacement cost for the valuation of property, plant and equipment.

The relevant accounting standard allows the fair value of assets acquired to be refined for a window of one year after the acquisition date, and judgement is required to ensure the adjustments made reflect new information obtained about facts and circumstances that existed as of the acquisition date. The adjustments made on fair value of assets are retrospective in nature and have an impact on goodwill or gain recognised on acquisition.

#### **(a) Update on acquisition of 4% of Moolarben**

On 30 November 2018, Moolarben Coal Mine Pty Ltd a 100% owned subsidiary of Yancoal Australia Ltd acquired a 4% interest in Moolarben Coal Joint Venture ("Moolarben JV") from Kores Australia Moolarben Coal Pty Ltd ("Kores"). The Moolarben JV is accounted for as a joint operation. With the 4% acquisition the Group holds an 85% interest in the Moolarben JV. The cash consideration paid was \$84 million, split over four six-monthly instalments of \$21 million each, and reduced by a \$21 million effective date adjustment whereby the cash consideration was reduced by 4% of the Moolarben JV's net cash inflows from the date of the sales agreement (15 April 2018) to completion.

During the period no new information has occurred in relation to this acquisition and as a result the accounting for this acquisition was finalised on 30 November 2019.

## **E Group Structure (continued)**

### **E1 Business combinations and disposals (continued)**

#### **(b) Update on acquisition of 28.898% interest in Warkworth Joint Venture**

As announced on 7 March 2018 and effective from 1 March 2018 CNA Warkworth Australasia Pty Ltd, a subsidiary of the Company, acquired a 28.898% interest in the Warkworth Joint Venture from Mitsubishi Development Pty Ltd ("MDP") for US\$230 million, plus a net debt and working capital adjustment. The acquisition also included MDP's shareholding in the following companies, Warkworth Coal Sales Pty Ltd, Warkworth Mining Ltd, Warkworth Pastoral Co Pty Ltd and Warkworth Tailings Treatment Pty Ltd.

During the period no new information has occurred in relation to this acquisition and as a result the accounting for this acquisition was finalised on 7 March 2019.

### **E2 Interests in other entities**

#### **Accounting Policies**

##### **(i) Associates**

Associates are entities over which the Group has significant influence but not control or joint control. Significant influence is presumed to exist where the Group:

- has over 20% but less than 50% of the voting rights of an entity, unless it can be clearly demonstrated that this is not the case; or
- holds less than 20% of the voting rights of an entity; however, has the power to participate in the financial and operating policy decisions of the entity.

After initial recognition at cost, associates are accounted for using the equity method.

##### **(ii) Joint arrangements**

A joint arrangement is a contractual arrangement whereby two or more parties undertake economic activities under joint control. Joint control exists only when the strategic, financial and operational policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. The classification of a joint arrangement is dependent on the rights and obligations of the parties to the arrangement and will be either a joint operation or joint venture.

**Joint operations:** A joint operation is an arrangement where the Group shares joint control, primarily through contractual arrangements with other parties. In these arrangements, the Group has rights to the assets and obligations for the liabilities relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading. The Group recognises its proportional right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate line items.

**Joint ventures:** A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement. A separate vehicle, not the parties, has rights to the assets and liabilities of the arrangement. Joint ventures are accounted for using the equity method.

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (iii) Equity method

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is aggregated as one line item and recognised in profit or loss. Its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in a joint venture or associate equals or exceeds its interest, which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture, the Group does not recognise any further losses, unless it has incurred a contractual or constructive obligation to contribute further funds. Unrealised gains on transactions between the Group and its joint ventures or associates are eliminated to the extent of the Group's interest in these entities. Accounting policies of the joint ventures and associates have been changed where necessary, to ensure consistency with the policies adopted by the Group.

#### Critical accounting judgements and estimates

There is significant judgement in assessing whether the Group controls Watagan. Even though it holds 100% of the nominal share capital. An assessment has been made that in accordance with the accounting standards the Group does not control Watagan as it is not able to direct the relevant activities of Watagan and accounts for its interest in Watagan as an associate. There are significant estimates in assessing the underlying asset impairment test for Watagan, further details are in the note below.

#### (a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 85% (2018: 81% up to 30 November 2018) interest in the Moolarben Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

A controlled entity, Coal & Allied Operations Pty Ltd has a 51% (2018: 67.6% up to 4 May 2018) interest in the Hunter Valley Operations Joint Venture whose principal activity is the development and operation of open-cut coal mines.

A controlled entity, Mount Thorley Operations Pty Ltd has a 80% (2018: 80%) interest in the Mount Thorley Joint Venture whose principal activity is the development and operation of open-cut coal mines.

Controlled entities, CNA Warkworth Australasia Pty Ltd and CNA Resources Ltd, have a combined 84.5% (2018: 55.6% up to 1 March 2018) interest in the Warkworth Joint Venture whose principal activity is the development and operation of open-cut mines.

A controlled entity, Yarrabee Coal Company Pty Ltd, has a 50% (2018: 50%) interest in the Boonal Joint Venture, whose principal activity is the provision of a coal haul road and train load out facility.

The principal place of business for the above joint operations is in Australia.

#### (b) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 31 December 2019. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business.

**E Group Structure (continued)**

**E2 Interests in other entities (continued)**

**(b) Interests in associates and joint ventures (continued)**

Name of entity	Place of business / country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount of investment	
		2019 %	2018 %			2019 \$M	2018 \$M
Watagan Mining Company Ltd	Australia	100	100	Associate	Equity method	-	-
Port Waratah Coal Services Ltd	Australia	30	30	Associate	Equity method	184	190
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27	27	Associate	Equity method	-	-
Middlemount Coal Pty Ltd	Australia	49.9997	49.9997	Joint Venture	Equity method	87	116
HVO Coal Sales Pty Ltd	Australia	51	51	Joint Venture	Equity method	2	1
HVO Operations Pty Ltd	Australia	51	51	Joint Venture	Equity method	-	-
HVO Services Pty Ltd	Australia	51	51	Joint Venture	Equity method	-	-
<b>Total</b>						<b>273</b>	<b>307</b>

*(i) Investment in associates*

*Watagan Mining Company Pty Ltd*

During 2015 the Group established a 100% owned subsidiary, Watagan Mining Company Pty Ltd ("Watagan"). On 18 February 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the "Watagan Agreements") that, on completion, transferred the Group's interest in three of its 100% owned NSW coal mining operations, being the Astar, Ashton and Donaldson coal mines (the "three mines"), to Watagan for a purchase price of \$1,363 million (an amount equal to the book value of the three mines at completion). The purchase price was funded by way of a \$1,363 million loan from Yancoal Australia Ltd to Watagan bearing interest at BBSY plus 7.06% with a maturity date of 1 April 2025 Yankuang Group Co., Ltd ("Yankuang"), the Group's ultimate parent entity, guarantees payment of any amount owed to Yancoal Australia Ltd under the loan if Watagan does not pay Yancoal Australia Ltd such amount when due. The completion date of the transaction was 31 March 2016.

## **E Group Structure (continued)**

### **E2 Interests in other entities (continued)**

#### **(b) Interests in associates and joint ventures (continued)**

##### *(i) Investment in associates (continued)*

###### *Watagan Mining Company Pty Ltd (continued)*

On completion Watagan issued US\$775 million of secured debt bonds with a term of approximately nine years to three external financiers ("Bondholders"). The Bondholders receive interest on the face value outstanding on the bonds comprising a fixed interest component, as well as a variable interest component that is tied to the EBITDA performance of Watagan. As a result of the terms of the Watagan Agreements, it was determined that the Bondholders obtained accounting control of Watagan; accordingly, the Group de-consolidated Watagan.

This change in accounting control was determined to occur on the issuance date of the bonds on the basis that the Bondholders obtained power over the key operating and strategic decisions of Watagan and no longer resided with the Group. Specifically, those powers were transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders were given control of Watagan's board of directors via appointment of the majority of directors. This change in accounting control resulted in the Group de-consolidating the results of Watagan from the transaction completion date and the Group began to equity account for its 100% equity interest in Watagan as an associate, given the Group retains significant influence in Watagan.

On 4 January 2019 BOCI (one of the Bondholders) notified Watagan and Yankuang that it was exercising its put option over US\$200 million of bonds. As a consequence, Yankuang became the bondholder of the put bonds following completion of the purchase of those bonds by Yankuang on 1 April 2019. No security was given by Watagan in favour of Yankuang. As the put bonds represent less than 50.1% of the face value of the bonds, and the put option was not exercised by the instructing bondholder, the put option is not deemed to have been exercised as to all the bonds, nor has the group regained accounting control of Watagan. Accordingly, the Group continues to equity account its interest in Watagan.

Whilst Watagan is equity accounted rather than consolidated for accounting purposes, as a result of the Group's ongoing 100% equity ownership it remains within the Group's tax consolidated group.

The Watagan group financial statements for the year ended 31 December 2019 have not yet been finalised by Watagan, where, in accordance with their reporting obligations, they have until 30 April 2020 to finalise their reporting. However, Yancoal has undertaken an assessment of the carrying value of the Watagan assets for the purpose of disclosures in its Group financial statements. This resulted in the recognition of a \$873 million impairment provision, before tax, against the non-current assets recognised on Watagan's balance sheet based on the Group's assessment of the carrying value of the Watagan assets, following finalisation of a number of detailed technical studies. This is in addition to the recognition of a \$100 million impairment provision, before tax, by Yancoal at 30 June 2019. For the year ended 31 December 2019 the total impairment provision recognised of \$973 million includes \$328 million at Astar, \$528 million at Ashton and \$117 million at Donaldson.

The book value of Watagan's non-current assets, after the recognition of the above impairment, is \$832 million and includes, \$114 million, \$258 million and \$271 million for the Astar, Ashton and Donaldson mines, respectively.

The book value of Watagan's net liabilities has declined since inception and at 31 December 2019 Yancoal has assessed the book value of liabilities exceeded the book value of assets by \$1,294 million. Watagan's loss after tax for the year ended 31 December 2019 was \$856 million (2018: loss \$217 million) inclusive of the impairment provision described above. These losses have not been recognised by Yancoal as the accumulated losses exceeds the value of the investment by the Group.

Under the Watagan Agreements, Yancoal will regain accounting control of Watagan and need to re-consolidate the Watagan Group if:

- either Industrial Bank (as more than 50.1% of the total bonds will have been put to Yankuang) or UNE (as the instructing bondholder) exercise their put options to Yankuang during an exercise window (the next window being January 2021);
- Watagan redeems all the bonds; or

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

##### (i) Investment in associates (continued)

###### *Watagan Mining Company Pty Ltd (continued)*

- some other change of circumstance occurs that re-establishes Yancoal's control of Watagan, including amendments or replacement of existing accounting standards.

If reconsolidation occurs Yancoal will i) cease recognising interest income on the Watagan loan amounting to \$75 million in the year ended 31 December 2019, forego the fees and margin received under the various service agreements amounting to \$10 million in the year ended 31 December 2019 and de-recognise the Watagan loan receivable balance of \$901 million at 31 December 2019 as these amounts will become intercompany balances and will be eliminated on consolidation; ii) recognise an interest expense on the Watagan bonds amounting to \$69 million in the year ended 31 December 2019 (or the Yankuang loan if the put option has been fully exercised or any external funding used to refinance either the Watagan bonds or Yankuang loan) and recognise the fair value of the Watagan Bonds, with a face value of US\$775 million (A\$1,106 million) at 31 December 2019; and iii) recognise the ongoing operating results of Watagan, including the three Watagan mines, in the profit and loss and recognise the fair value of the assets and liabilities of Watagan (including the Watagan Bonds) on the balance sheet at that time.

The book value of Watagan's net liabilities at 31 December 2019 was \$1,294 million. Upon the potential reconsolidation of Watagan, Yancoal will be required to recognise the fair value of the assets and liabilities of Watagan on its balance sheet at the date of reconsolidation, and whilst book value is not necessarily equal to fair value the Yancoal directors believe the net asset deficiency of \$1,294 million is a reasonable approximation of fair value at 31 December 2019. As such, had the potential reconsolidation of Watagan by Yancoal occurred at 31 December 2019 Yancoal may be required to recognise a loss on reconsolidation of approximately \$1,294 million. The net asset deficiency of Watagan could increase in the future if Watagan incurs additional after tax losses, additional asset impairments or there is a weakening of the AUD:USD exchange rate resulting in an increase in the AUD equivalent of the US\$775 million bonds.

On 24 January 2020, it was announced to Astar employees that the mine will suspend production and transition to care and maintenance operations after 31 March 2020, following the completion of works within the current Bellbird South mining area. Work continues to be undertaken by Watagan in respect of the very challenging geological, geotechnical, ventilation and gas conditions at the mine's Stage 3 area to assess if a re-entry to this mining area is feasible and economic. Based on the latest available technical information, received in the second half of 2019, it was determined to impair the carrying value of the Astar mine to \$nil reflecting the increased significant uncertainty regarding any future operations at the Astar mine.

## **E Group Structure (continued)**

### **E2 Interests in other entities (continued)**

#### **(b) Interests in associates and joint ventures (continued)**

##### *(i) Investment in associates (continued)*

##### *Watagan Mining Company Pty Ltd (continued)*

The Ashton mine continues to face geotechnical challenges with regard to mining the Lower Barrett seam on completion of the current Upper Lower Liddell seam together with ongoing land acquisition challenges with regard to the proposed South East Open Cut mine ("SEOC"). Based on the latest available technical information and regulatory approval status of SEOC, updated in the second half of 2019, it was determined to impair the carrying value of the Ashton mine to \$112 million, including exploration, reflecting the increased geotechnical risk and related negative economic impact on the Lower Barrett seam and the increased uncertainty regarding development of SEOC.

Donaldson remains on care and maintenance and work remains ongoing to explore potential future mining operations. Based on the latest available technical information, it was determined to impair the carrying value of Donaldson to \$228 million, including exploration, primarily reflecting an increase in forecast operating cash costs.

The value of the non-current assets in Watagan continue to carry operational risks, including that:

- Ashton mines the Lower Barrett seam on completion of mining the Upper Lower Liddell seam; and
- Donaldson will recommence operations at some time in the future which is management's current intention.

The key assumptions in the fair value model of Watagan are broadly consistent with those disclosed in Note C3 noting that; (i) the Group's assessment of the long term coal prices of US\$51 - US\$100 per tonne for thermal coal and US\$102 - US\$176 per tonne from metallurgical coal for Watagan mines is toward the bottom of the range of external forecasts, and (ii) to reflect the increased operational risks when determining the recoverable amount of the Watagan mines a 1.5% risk premium has been applied to the discount rate for Ashton's current operations, increasing to 3.5% for Lower Barrett, and a 3.5% risk premium has been applied to Aустar and Donaldson.

If it is determined that either or both, Ashton or Donaldson, are unable to operate at future forecast production levels or there are further materially negative changes to other operating assumptions, impacting both mines, including coal prices, exchange rates, operating costs, capital expenditure, life of mine production, geological conditions, approvals or changes to existing lease conditions or regulatory outcomes it is likely that the fair value of these mines would be reduced further. Any further impairment of the assets of Watagan would increase Watagan's net asset deficit. In that event, a further impairment may be recognised by the Group on its loan receivable from Watagan, refer to Note D1 for details on the loan, or on the future reconsolidation of Watagan.

#### **Sensitivities**

Apart from the geotechnical issues noted at Ashton and the ongoing work on recommencing mining at Donaldson that directly impact the physical and cost inputs, the most sensitive inputs to the fair value model of Watagan is forecast revenue, which is primarily dependent on estimated future coal prices, the AUD:USD forecast exchange rate, and the discount rate:

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

(i) Investment in associates (continued)

*Watagan Mining Company Pty Ltd (continued)*

	2019 Watagan \$M
Book Value	190
Recoverable Amount	190
Head Room	-
US\$ Coal Price (i)	
+10%	164
-10%	(155)
Exchange Rate (ii)	
+5 cents	(75)
-5 cents	89
Discount Rate (iii)	
+50 bps	(13)
-50 bps	13

(i) This represents changes in recoverable amount due to +/- 10% change to our coal price assumption.

(ii) This represents the changes in recoverable amount due to a +/- 5 cents change to the long-term AUD:USD foreign exchange rate adopted.

(iii) This represents the changes in recoverable amount due to a +/- 50bps change in discount rate adopted.

For Yancoal, an increase in the recoverable amount, all else being equal, may decrease any loss on reconsolidation, conversely, a decrease in the recoverable amount may increase any loss on reconsolidation.

#### *Port Waratah Coal Services Ltd*

The Group holds a direct shareholding in Port Waratah Coal Services Ltd ("PWCS") of 30% (2018: 30%). Under the shareholder agreement between the Group and the other shareholders of PWCS, the Group has 30% of the voting power of PWCS. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes. The principal activities of PWCS were the provision of coal receivable, blending, stockpiling and ship loading services in the Port of Newcastle.

#### *Newcastle Coal Infrastructure Group Pty Ltd*

The Group holds 27% (2018: 27%) of the ordinary shares of Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"). Under the shareholder agreement between the Group and other shareholders, the Group has 27% of the voting power of NCIG. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes.

#### *Summarised financial information of associates*

The information below reflects the Group's share of the results of its principal associates and the aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

##### (i) Investment in associates (continued)

Summarised financial information of associates (continued)

	Watagan		PWCS		NCIG	
	31 December 2019 \$M	31 December 2018 \$M	31 December 2019 \$M	31 December 2018 \$M	31 December 2019 \$M	31 December 2018 \$M
Cash and cash equivalent	14	109	72	51	59	51
Other current assets	66	55	47	56	37	41
<b>Current assets</b>	<b>80</b>	<b>164</b>	<b>119</b>	<b>107</b>	<b>96</b>	<b>92</b>
Property, plant and equipment	347	865	1,365	1,462	2,079	2,158
Mining tenements	-	319	-	-	-	-
Exploration and evaluation assets	154	298	-	-	-	-
Deferred tax asset	153	-	-	-	-	-
Other non current assets	178	172	43	25	495	500
<b>Non-current assets</b>	<b>832</b>	<b>1,654</b>	<b>1,408</b>	<b>1,487</b>	<b>2,574</b>	<b>2,658</b>
<b>Total assets</b>	<b>912</b>	<b>1,818</b>	<b>1,527</b>	<b>1,594</b>	<b>2,670</b>	<b>2,750</b>
<b>Current liabilities</b>	<b>57</b>	<b>54</b>	<b>289</b>	<b>235</b>	<b>53</b>	<b>53</b>
Deferred tax liability	-	206	71	78	96	99
Other non-current liabilities	2,149	1,996	555	649	3,843	3,871
<b>Non-current liabilities</b>	<b>2,149</b>	<b>2,202</b>	<b>626</b>	<b>727</b>	<b>3,939</b>	<b>3,970</b>
<b>Total liabilities</b>	<b>2,206</b>	<b>2,256</b>	<b>915</b>	<b>962</b>	<b>3,992</b>	<b>4,023</b>
<b>Net assets</b>	<b>(1,294)</b>	<b>(438)</b>	<b>612</b>	<b>632</b>	<b>(1,322)</b>	<b>(1,273)</b>
<b>Group's ownership interest in the Net assets</b>	<b>(1,294)</b>	<b>(438)</b>	<b>184</b>	<b>190</b>	<b>(357)</b>	<b>(338)</b>
<b>Revenue</b>	<b>316</b>	<b>311</b>	<b>341</b>	<b>362</b>	<b>439</b>	<b>388</b>
Management fees (Yancoal Australia Ltd)	(49)	(51)	-	-	-	-
Interest paid / payable (Bondholders)	(72)	(74)	-	-	-	-
Interest paid / payable (Yancoal Australia Ltd)	(75)	(67)	-	-	-	-
Other interest expenses	(5)	(5)	(29)	(33)	(241)	(228)
Depreciation & amortisation expenses	(141)	(69)	(117)	(112)	(106)	(106)
Impairment of assets	(973)	-	-	-	-	-
(Loss) / gain on foreign exchange	(7)	(89)	-	-	(49)	(329)
Other expenses	(216)	(263)	(173)	(174)	(92)	(83)
Income tax benefit / (expense)	366	90	(9)	(14)	-	111
<b>(Loss) / profit from continuing operations after tax</b>	<b>(856)</b>	<b>(217)</b>	<b>13</b>	<b>29</b>	<b>(49)</b>	<b>(247)</b>
Other comprehensive income / (expense)	-	-	-	-	-	-
<b>Total comprehensive (expense) / income</b>	<b>(856)</b>	<b>(217)</b>	<b>13</b>	<b>29</b>	<b>(49)</b>	<b>(247)</b>
<b>Group's ownership interest in (loss) / profit after tax</b>	<b>(856)</b>	<b>(217)</b>	<b>4</b>	<b>9</b>	<b>(13)</b>	<b>(67)</b>

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

##### (i) Investment in associates (continued)

##### Movements in carrying amounts

The Group's share of Watagan and NCIG's profit / (loss) after tax has not been recognised for the years ended 31 December 2019 and 31 December 2018 since the Group's share of Watagan and NCIG's accumulated losses exceeds its interest in Watagan and NCIG at 31 December 2019 and at 31 December 2018.

As the Group does not have contractual agreements or a contractual obligation to contribute to these associates no additional liabilities have been recognised.

<b>Movements in PWCS carrying amounts</b>	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Opening balance	190	191
Share of profit of equity-accounted investees, net of tax	4	9
Dividends received	(10)	(10)
Closing net book amount	<u>184</u>	<u>190</u>

##### (ii) Interest in joint ventures

##### Middlemount Coal Pty Ltd

A controlled entity, Gloucester (SPV) Pty Ltd, has a 49.9997% interest in the net assets of Middlemount Coal Pty Ltd ("Middlemount"), an incorporated joint venture, whose principal activity is the development and operation of open-cut coal mines in the Bowen Basin.

##### HVO entities

On completion of the establishment of the 51%:49% unincorporated joint venture with Glencore on 4 May 2018, the Group holds 51% of the shares in HVO Coal Sales Pty Ltd, HVO Operations Pty Ltd and HVO Services Pty Ltd ("HVO Entities"). From this date the Group has determined that it no longer controls these companies. From 4 May 2018 the Group equity accounts the financial results of these companies.

##### Summarised financial information of joint ventures

The following table provides summarised financial information for the HVO Entities and Middlemount. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

(ii) Interest in joint ventures (continued)

Summarised financial information of joint ventures (continued)

	HVO Entities		Middlemount	
	31 December 2019 \$M	31 December 2018 \$M	31 December 2019 \$M	31 December 2018 \$M
Cash and cash equivalents	5	6	8	14
Other current assets	113	113	80	81
Total current assets	118	119	88	95
Total non-current assets	32	36	942	868
Total current liabilities	108	115	231	97
Non-current financial liabilities			173	162
Other non-current liabilities	38	38	452	472
Total non-current liabilities	38	38	625	634
<b>Net assets</b>	<b>4</b>	<b>2</b>	<b>174</b>	<b>232</b>
<b>Group's ownership interest in net assets</b>	<b>2</b>	<b>1</b>	<b>87</b>	<b>116</b>

	HVO Entities		Middlemount	
	31 December 2019 \$M	31 December 2018 \$M	31 December 2019 \$M	31 December 2018 \$M
Revenue	2	-	464	755
Depreciation and amortisation	-	-	(44)	(38)
Other expenses	-	-	(479)	(541)
Interest expenses	-	-	(17)	(37)
Income tax benefit /(expense)	-	2	18	(48)
<b>Profit / (loss) from continuing operations after tax</b>	<b>2</b>	<b>2</b>	<b>(58)</b>	<b>91</b>
Movements in reserves, net of tax	-	-	-	21
<b>Total changes in equity</b>	<b>2</b>	<b>2</b>	<b>(58)</b>	<b>112</b>
<b>Group's ownership interest in profit / (loss) after tax</b>	<b>1</b>	<b>1</b>	<b>(29)</b>	<b>46</b>
<b>Group's ownership interest in reserve movements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>

The liabilities of Middlemount include non-interest-bearing liability of \$203 million (face value of \$212 million) due to the Group at 31 December 2019 (31 December 2018: \$218 million) with maturity of 31 December 2020 and an interest-bearing revolver of \$25 million which was fully drawn at 31 December 2019. The liabilities of Middlemount also includes a royalty payable of \$15 million due to the Group at 31 December 2019 (31 December 2018: \$9 million).

## E Group Structure (continued)

### E2 Interests in other entities (continued)

#### (b) Interests in associates and joint ventures (continued)

##### (ii) Interest in joint ventures (continued)

Movements in carrying amounts

	Middlemount	
	31 December 2019 \$M	31 December 2018 \$M
Opening net book amount	116	60
Share of (loss) / profit of equity-accounted investees, net of tax	(29)	46
Movements in reserves, net of tax	-	10
Closing net book amount	87	116

##### (iii) Commitments and contingent liabilities in respect of associates and joint ventures

There were no commitments and no contingent liabilities in respect of the Group's associates and HVO Entities as at 31 December 2019.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2019.

Other contingent liabilities in respect of the Group's interest in Middlemount are set out in Note D8(ii).

## E3 Related party transactions

### (a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's majority shareholder is Yanzhou Coal Mining Company Limited ("Yanzhou") (incorporated in the People's Republic of China). The ultimate parent entity and ultimate controlling party is Yankuang Group Corporation Limited (incorporated in the People's Republic of China).

Yancoal International Resources Development Co., Ltd, Yancoal International Trading Co., Ltd are owned by Yanzhou and incorporated in Hong Kong. Yankuang Resources Pty Ltd is owned by Yankuang, incorporated in Australia and the Company manages this entity on behalf of Yankuang.

### (b) Yancoal International Holding Co. Ltd

Yancoal International (Holding) Co., Ltd is a wholly owned subsidiary of Yanzhou and has the following subsidiaries: Yancoal Technology Development Holdings Pty Ltd, Athena Holdings Pty Ltd, Tonford Holdings Pty Ltd, Wilpeena Holdings Pty Ltd, Premier Coal Holdings Pty Ltd, Premier Coal Ltd, Yankuang Ozstar Ningbo Trading Co Ltd ("Yankaung Ozstar"), Yancoal Energy Pty Ltd and Syntech Resources Pty Ltd ("Yancoal International Group"). The Company manages these entities on behalf of Yanzhou.

### (c) Associates and joint ventures

Refer to Note E2 for details on the associates and joint ventures.

## E Group Structure (continued)

### E3 Related party transactions (continued)

#### (d) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Sales of goods and services</i>		
Sales of coal to Watagan Mining Company Pty Ltd	22,217	36,854
Sales to coal to Yancoal International Trading Co. Ltd (i)	126,840	225,952
Provision of marketing and administrative services to Watagan Group	5,881	5,705
Provision of marketing and administrative services to Yancoal International Group (ii)	8,880	7,900
	<b>163,819</b>	<b>276,411</b>
<i>Purchases of goods and services</i>		
Purchase of coal from Watagan Group	(112,280)	(47,302)
Purchases of coal from Syntech Resources Pty Ltd (i)	(7,341)	(27,159)
	<b>(119,621)</b>	<b>(74,461)</b>
<i>Advances and loans</i>		
Repayments of loan from Yanzhou Coal Mining Company Ltd (ii)	(349,211)	(174,787)
Advances of loan to Watagan Mining Company Pty Ltd	(292,845)	(377,091)
Repayments of loan from Watagan Mining Company Pty Ltd (ii)	227,150	254,356
Repayments of loans from Middlemount Coal Pty Ltd	21,000	117,071
Advances of loan receivable to Middlemount	(25,000)	-
Repayment of promissory note from Yankaung Ozstar	40,037	-
Interest income capitalised into loan receivable from Middlemount	-	(14,952)
	<b>(378,869)</b>	<b>(195,402)</b>
<i>Finance costs</i>		
Interest expenses on loans from Yancoal International Resources Development Co., Ltd (ii)	(12,290)	(20,305)
Interest expenses on loans from Yanzhou (ii)	(57,675)	(65,352)
Interest expenses on loans from Yancoal International (Holding) Co., Ltd (ii)	(5,823)	(9,282)
Interest expenses on loans from Yancoal International Trading Co., Ltd (ii)	(3,241)	(20,354)
	<b>(79,029)</b>	<b>(115,293)</b>
<i>Other costs</i>		
Corporate guarantee fee to Yanzhou Coal Mining Company Ltd (ii)	(27,991)	(65,090)
Port charges to NCIG Holdings Pty Limited	(128,968)	(137,628)
Port charges to PWCS	(32,402)	(38,449)
Arrangement fee on loans from Yancoal International Resources Development Co., Ltd (ii)	-	(1,503)
	<b>(189,361)</b>	<b>(242,670)</b>
<i>Finance income</i>		
Interest income received from Premier Coal Holdings Pty Ltd	-	264
Interest income from loan to Watagan Mining Company Pty Ltd	75,368	67,179
Interest income released from loan receivable with Middlemount	5,820	18,187
Interest income received from loan receivable with Middlemount	729	-
	<b>81,917</b>	<b>85,630</b>

## E Group Structure (continued)

### E3 Related party transactions (continued)

#### (d) Transactions with other related parties (continued)

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Other income</i>		
Mining services fees charged to Watagan Group	43,308	46,003
Royalty income charged to Middlemount	19,299	31,398
Bank guarantee fee charged to Yancoal International Group (ii)	2,904	2,860
Bank guarantee fee charged to Watagan Group	1,702	1,574
Longwall hire fee charged to Austar Coal Mine Pty Ltd	3,000	3,000
Dividend income received from PWCS	13,279	13,126
	<b>83,492</b>	<b>97,961</b>

#### (e) Outstanding balances arising from transactions with related parties

Balances outstanding at the reporting date to / from related parties are unsecured, non-interest bearing (except for loans receivable and loans payable) and are repayable on demand.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Current assets</i>		
<i>Trade and other receivables</i>		
Receivable from Yancoal International Group in relation to cost reimbursement	2,734	3,791
Receivable from Watagan Group entities in relation to cost reimbursement	-	9,417
Royalty receivable from Middlemount	15,428	9,403
Other receivable from Yankuang Resources Pty Ltd	52	35
Promissory Notes receivable from Oz Star Ningbo Trading Co., Ltd	-	39,671
<i>Loans receivable</i>		
Interest income receivable from Watagan Mining Company Pty Ltd	-	-
Interest income receivable from Middlemount	318	-
Loan receivable advanced to Middlemount	25,000	-
	<b>43,532</b>	<b>62,317</b>
<i>Non-current assets</i>		
<i>Advances to joint venture and associate</i>		
Receivable from Middlemount Coal Pty Ltd being an unsecured, non-interest bearing advance	202,670	217,850
Receivable from Watagan Mining Company Pty Ltd being an unsecured, interest-bearing loan	900,591	834,896
	<b>1,103,261</b>	<b>1,052,746</b>

## E Group Structure (continued)

### E3 Related party transactions (continued)

#### (e) Outstanding balances arising from transactions with related parties (continued)

	31 December 2019 \$'000	31 December 2018 \$'000
<i>Current liabilities</i>		
<i>Other payables</i>		
Payables to Yanzhou	102,211	159,154
Payables to Yancoal International Resources Development Co., Ltd	5,654	5,612
Payables to Yancoal International (Holding) Co., Ltd	2,345	3,974
Tax sharing and funding arrangement with Watagan Group	164,026	107,618
Payables to Yancoal International Trading Co., Ltd	-	8,938
Other payable to Watagan Group	3,451	-
	<u>277,687</u>	<u>285,296</u>
<i>Non-current liabilities</i>		
<i>Other payables</i>		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan (ii)	192,692	191,272
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan (ii)	79,927	128,927
Payable to Yancoal International Trading Co., Ltd being an unsecured, interest-bearing loan (ii)	-	304,619
Payable to Yanzhou being an unsecured, interest-bearing loan (ii)	891,634	885,065
	<u>1,164,253</u>	<u>1,509,883</u>

The terms and conditions of the related party non current liabilities is detailed in Note D2(c) above.

(i) Continuing connected transaction under Chapter 14A of H K Listing Rules.

(ii) Fully exempt continuing connected transaction under Chapter 14A of H K Listing Rules.

#### (f) Guarantees

The financiers of the Group have issued undertakings and guarantees to government departments, and various external parties on behalf of the following related entities:

	31 December 2019 \$'000	31 December 2018 \$'000
<b>Yancoal International Group</b>		
Syntech Resources Pty Ltd	84,172	84,694
AMH (Chinchilla Coal) Pty Ltd	49	49
Premier Coal Ltd	29,000	29,000
Tonford Holdings Pty Ltd	10	10
Athena Joint Venture	3	3
<b>Watagan Group</b>		
Ashton Coal Mines Ltd	28,843	15,467
Austar Coal Mine Pty Ltd	37,993	36,640
Donaldson Coal Pty Ltd	9,764	7,953
<b>Other Yankaung entity</b>		
Yankuang Resources Pty Ltd	45	45
	<u>189,879</u>	<u>173,860</u>

## E Group Structure (continued)

### E3 Related party transactions (continued)

#### (f) Guarantees (continued)

Refer to Note D8(i) for details of the natures of the guarantees provided.

#### (g) Terms and conditions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The terms of the loan facilities from Yanzhou are as follows:

The US\$116 million loan from Yancoal International Resources Development Co., Ltd repaid in October 2018 was charged at a fixed interest rate of 7.00% p.a (inclusive of arrangement fees).

On 31 December 2014 an AU\$1,400 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2019 US\$250 million was repaid and no additional amounts were drawn. As at 31 December 2019 a total of US\$573 million has been drawn.

On 31 December 2014 an AU\$807 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2019 no amounts were repaid or drawn (2018: no amount was repaid or drawn) (Note D2(c)). As at 31 December 2019 a total of US\$243 million has been drawn.

Yanzhou has provided corporate guarantees as security for the following facilities:

- Syndicated facility and syndicated bank guarantee facility at a fixed rate of 1.5% from 1 April 2018 (2.5% before 1 April 2018) is charged on the outstanding loan principal and bank guarantee facility limit.

The Directors of Yanzhou have provided a letter of support whereby unless revoked by giving not less than 24 months notice, for so long as Yanzhou owns at least 51% of the shares of Yancoal, Yanzhou will ensure that Yancoal continues to operate so that it remains solvent.

### E4 Parent entity financial information

#### (a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd show the following aggregate amounts:

	<b>31 December 2019 \$M</b>	31 December 2018 \$M
Current assets	<b>1,556</b>	1,120
Non-current assets	<b>9,721</b>	9,947
Total assets	<b>11,277</b>	11,067
Current liabilities	<b>2,560</b>	1,198
Non-current liabilities	<b>3,035</b>	4,066
Total liabilities	<b>5,595</b>	6,064
<b>Net assets</b>	<b>5,682</b>	5,003

## E Group Structure (continued)

### E4 Parent entity financial information (continued)

#### (a) Summary financial information (continued)

<i>Shareholders' equity</i>		
Contributed equity	6,482	6,482
Reserves		
Other reserves	(484)	(604)
Distributable profits	1,045	486
Accumulated losses	(1,361)	(1,361)
<b>Capital and reserves attributable to the owners of Yancoal Australia Ltd</b>	<b>5,682</b>	<b>5,003</b>
Profit for the year	1,073	616
Other comprehensive income / (expense)	122	(198)
<b>Total comprehensive income</b>	<b>1,195</b>	<b>418</b>

#### (b) Guarantees entered into by the parent entity

As at 31 December 2019, the parent entity had contingent liabilities in the form of a bank guarantee amounting to \$921 million (2018: \$875 million) in support of the operations of the parent entity, its subsidiaries and related parties (refer to Note E3).

#### (c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note E5.

The parent entity did not have any contingent liabilities as at 31 December 2019, except for those described in Note D8.

## E5 Controlling interests

#### (a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries that are controlled:

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2019 %	2018 %
<b>The Company</b>				
Yancoal Australia Ltd (i)			100	100
<b>Controlled entities</b>				
Yancoal SCN Ltd	Holding company of subordinated capital notes	1	100	100
Yancoal Australia Sales Pty Ltd (i) (iii)	Coal sales	100	100	100
Yancoal Resources Limited (iii)	Coal investment holding company	446,409,065	100	100
Yancoal Mining Services Pty Ltd (i)	Provide management services to underground mines	100	100	100
Moolarben Coal Mines Pty Ltd (iii)	Coal business development	1	100	100
Moolarben Coal Operations Pty Ltd	Management of coal operations	2	100	100

## E Group Structure (continued)

### E5 Controlling interests (continued)

#### (a) Significant investments in subsidiaries (continued)

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2019 %	2018 %
Moolarben Coal Sales Pty Ltd	Coal sales	2	100	100
Felix NSW Pty Ltd	Investment holding	2	100	100
SASE Pty Ltd	Dormant	9,650,564	90	90
Yarrabee Coal Company Pty. Ltd. (iii)	Coal mining and sales	92,080	100	100
Proserpina Coal Pty Ltd	Holding company	1	100	100
Athena Coal Operations Pty Ltd	Dormant	1	100	100
Athena Coal Sales Pty Ltd	Dormant	1	100	100
Gloucester Coal Ltd (i) (iii)	Coal resource exploration development	719,720,808	100	100
Westralian Prospectors NL (i)	Holding company	93,001	100	100
Eucla Mining NL (i)	Coal mining	2	100	100
CIM Duralie Pty Ltd (ii)	Holding company	665	100	100
Duralie Coal Marketing Pty Ltd (ii)	Holding company	2	100	100
Duralie Coal Pty Ltd (i) (iii)	Coal mining	2	100	100
Gloucester (SPV) Pty Ltd (iii)	Holding company	2	100	100
Gloucester (Sub Holdings 2) Pty Ltd (ii)	Holding company	2	100	100
CIM Mining Pty Ltd (i)	Holding company	30,180,720	100	100
Monash Coal Holdings Pty Ltd (ii)	Holding company	100	100	100
CIM Stratford Pty Ltd (i)	Holding company	21,558,606	100	100
CIM Services Pty Ltd (ii)	Holding company	8,400,000	100	100
Monash Coal Pty Ltd (ii) (iii)	Coal exploration	100	100	100
Stratford Coal Pty Ltd (ii) (iii)	Coal mining	10	100	100
Stratford Coal Marketing Pty Ltd (ii)	Coal sales	10	100	100
Paway Ltd	Dormant	1	100	100
Coal & Allied Industries Ltd (iii)	Coal investment Holding company	86,584,735	100	100
Kalamah Pty Ltd	Holding company	1	100	100
Coal & Allied (NSW) Pty Ltd	Employment company for Mount Thorley mine and Warkworth mine	10,000	100	100
Australian Coal Resources Ltd	Coal investment holding company	5	100	100
Coal & Allied Operations Pty Ltd (iii)	Coal mining and related coal preparation and marketing	17,147,500	100	100
Lower Hunter Land Holdings Pty Ltd	Management company of lower Hunter land entities	1	100	100
Oaklands Coal Pty Ltd	Coal exploration	5,005	100	100
Novacoal Australia Pty Ltd	Holding company	530,000	100	100
CNA Resources Ltd (iii)	Holding company	14,258,694	100	100
CNA Warkworth Pty Ltd	Coal mining	1	100	100

## E Group Structure (continued)

### E5 Controlling interests (continued)

#### (a) Significant investments in subsidiaries (continued)

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2019 %	2018 %
Coal & Allied Mining Services Pty Ltd	Employment company for Mount Thorley Co Venture	10,000	100	100
RW Miller (Holdings) Ltd	Holding company	42,907,017	100	100
Mount Thorley Coal Loading Ltd	Operation of Mount Thorley coal loading facility	3,990,000	66	66
Gwandalan Land Pty Ltd	Holding company	1	100	100
Nords Wharf Land Pty Ltd	Hold land for development	1	100	100
Catherine Hill Bay Land Pty Ltd	Hold land for future development	1	100	100
Black Hill Land Pty Ltd	Hold land for future development	1	100	100
Minmi Land Pty Ltd	Hold land for future development	1	100	100
Namoi Valley Coal Pty Ltd	Holding company	8,400,000	100	100
CNA Warkworth Australasia Pty Ltd (iii)	Coal mining	2	100	100
CNA Bengalla Investments Pty Ltd	Holding company	12	100	100
Mount Thorley Operations Pty Ltd (iii)	Coal mining	24,214	100	100
Northern (Rhondda) Collieries Pty Ltd	Holding company	62,082	100	100
Miller Pohang Coal Company Pty Ltd	Coal sales	80	80	80
Warkworth Mining Ltd	Mine management	100	85	85
Warkworth Pastoral Company Pty Ltd	Pastoral company for the Warkworth JV	100	85	85
Warkworth Tailings Treatment Pty Ltd	Tailings company for the Warkworth JV	100	85	85
Warkworth Coal Sales Ltd	Sales company for Warkworth JV	100	85	85
Parallax Holdings Pty Ltd	Holding company	100	100	100
<b>Non controlled entities (iv)</b>				
Watagan Mining Company Pty Ltd	Holding company	100	100	100
Austar Coal Mine Pty Limited	Coal mining and sales	64,000,000	100	100
White Mining Limited	Holding company and mine management	3,300,200	100	100
White Mining Services Pty Limited	Holding company	2	100	100
White Mining (NSW) Pty Limited	Coal mining and sales	10	100	100
Ashton Coal Operations Pty Limited	Mine management	5	100	100
Ashton Coal Mines Ltd	Coal sales	5	100	100
Gloucester (Sub Holdings 1) Pty Ltd	Holding company	2	100	100
Donaldson Coal Holdings Ltd	Holding company	204,945,942	100	100
Donaldson Coal Pty Ltd	Coal mining and sales	6,688,782	100	100
Donaldson Coal Finance Pty Ltd	Finance company	10	100	100

## E Group Structure (continued)

### E5 Controlling interests (continued)

#### (a) Significant investments in subsidiaries (continued)

Name of entity	Principal activities	Issued and fully paid share capital	Equity holding	
			2019 %	2018 %
Abakk Pty Ltd	Holding company	6	100	100
Newcastle Coal Company Pty Ltd	Coal mining	2,300,999	100	100
Primecoal International Pty Ltd	Holding company	1	100	100
HV Operations Pty Ltd	Managing entity of Hunter Valley Operations	1	51	51
HVO Coal Sales Pty Ltd	Coal sales company for Hunter Valley	1,000	51	51
HVO Services Pty Ltd	Holding company	100	51	51

- (i) These subsidiaries have been granted relief from the requirement to prepare financial reports in accordance with ASIC Legislative Instrument 2016/785. These subsidiaries represent the closed group for the purposes of the class order. For further information refer to Note E6.
- (ii) These subsidiaries are members of the extended closed group for the purposes of ASIC Legislative Instrument 2016/785. For further information refer to Note E6.
- (iii) These entities are considered to be the material controlled entities of the Group. Their principal activities are the exploration, development, production and marketing of metallurgical and thermal coal.
- (iv) On 31 March 2016 the Group lost control of Watagan Mining Company Pty Ltd and its subsidiaries. On 4 May 2018 the Group lost control of the HVO Entities. For further information refer to Note E2.
- (v) All subsidiaries included in the table above are incorporated and operate in Australia, except for Paway Ltd which is incorporated in the British Virgin Islands.

The subsidiaries as listed have share capital consisting solely of ordinary shares and subordinated capital notes, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group apart from Watagan which is 33% being the current proportion of board members. The country of incorporation or registration is also their principal place of business.

### E6 Deed of cross guarantee

Yancoal Australia Ltd and certain subsidiaries (refer to Note E5), are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Legislative Instrument 2016/785 issued by the Australian Securities and Investments Commission.

#### (a) Consolidated statement of profit or loss and other comprehensive income

Set out below is a Consolidated Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated accumulated losses for the year ended 31 December 2019 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

## E Group Structure (continued)

### E6 Deed of cross guarantee (continued)

#### (a) Consolidated statement of profit or loss and other comprehensive income (continued)

	31 December 2019 \$M	31 December 2018 \$M
<b>Revenue</b>	<b>1,804</b>	1,465
Other income	126	100
Changes in inventories of finished goods and work in progress	2	(5)
Raw materials and consumables used	(20)	(14)
Employee benefits	(118)	(122)
Depreciation and amortisation	(47)	(29)
Coal purchase	(322)	(408)
Transportation	(108)	(126)
Contractual services and plant hire	(57)	(76)
Government royalties	(5)	(4)
Other operating expenses	(51)	(350)
Finance costs	(195)	(272)
<b>Profit before income tax</b>	<b>1,009</b>	159
Income tax benefit	93	312
<b>Profit after income tax</b>	<b>1,102</b>	471
	<b>31 December 2019 \$M</b>	<b>31 December 2018 \$M</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges:		
Fair value losses taken to equity	(15)	(443)
Fair value losses transferred to profit or loss	190	160
Deferred income tax (expense) / benefit	(53)	85
<b>Other comprehensive income / (expense), net of tax</b>	<b>122</b>	(198)
<b>Total comprehensive income</b>	<b>1,224</b>	273

#### **Summary of movements in consolidated accumulated losses**

Accumulated losses at the beginning of the financial year	(947)	(1,318)
Dividends provided for or paid	(514)	(130)
Opening retained earnings attributable to new members	(13)	13
Profit after income tax	1,102	471
Opening balance adjustment on adoption of AASB 9	-	17
<b>Accumulated losses at the end of the financial year</b>	<b>(372)</b>	(947)

#### (b) Consolidated balance sheet

Set out below is a Consolidated Balance Sheet as at 31 December 2019 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

**E Group Structure (continued)**

**E6 Deed of cross guarantee (continued)**

**(b) Consolidated balance sheet (continued)**

	31 December 2019 \$M	31 December 2018 \$M
<b>Current assets</b>		
Cash and cash equivalents	769	881
Trade and other receivables	552	302
Inventories	14	11
Other current assets	18	9
Non contingent royalty receivable	4	7
<b>Total current assets</b>	<b>1,357</b>	1,210
<b>Non-current assets</b>		
Trade and other receivables	21	21
Other financial assets	6,816	6,791
Property, plant and equipment	329	330
Mining tenements	250	271
Interest-bearing loan to associates	901	835
Deferred tax assets	466	821
Exploration and evaluation assets	243	254
Other non-current assets	13	23
Non contingent royalty receivable	4	8
<b>Total non-current assets</b>	<b>9,043</b>	9,354
<b>Total assets</b>	<b>10,400</b>	10,564
<b>Current liabilities</b>		
Trade and other payables	1,636	1,805
Interest-bearing liabilities	1,251	12
Provisions	11	10
Non-contingent royalty payable	13	25
<b>Total current liabilities</b>	<b>2,911</b>	1,852
<b>Non-current liabilities</b>		
Interest-bearing liabilities	1,790	3,687
Trade and other payable	4	-
Provisions	55	67
Non-contingent royalty payable	14	27
<b>Total non-current liabilities</b>	<b>1,863</b>	3,781
<b>Total liabilities</b>	<b>4,774</b>	5,633
<b>Net assets</b>	<b>5,626</b>	4,931
<b>Equity</b>		
Contributed equity	6,482	6,482
Reserves	(484)	(604)
Accumulated losses	(372)	(947)
<b>Total equity</b>	<b>5,626</b>	4,931

## F Other Information

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements. Information is provided on remuneration of auditors, commitments, events occurring after balance date, reconciliation of profit after income tax to net cash inflow, other accounting policies and new and amended accounting policies.

### F1 Commitments

#### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	31 December 2019 \$M	31 December 2018 \$M
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint operations	46	49
Other	2	-
<i>Exploration and evaluation</i>		
Not later than one year		
Share of joint operations	5	-
	<u>53</u>	<u>49</u>

### F2 Remuneration of auditors

#### (a) ShineWing Australia

	31 December 2019 \$000	31 December 2018 \$000
Audit and review of financial statements	1,379	1,808
Other assurance services	13	982
Tax compliance services	50	84
Total remuneration of ShineWing Australia	<u>1,442</u>	<u>2,874</u>

#### (b) ShineWing (HK) CPA Ltd

Other assurance services	15	820
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#### (c) Other audit providers

During the year ended 31 December 2019 the Company incurred services provided by Ernst & Young relating to the audit and review of Middlemount's financial statements of \$35,000 (2018: \$35,000), and Deloitte of \$75,000 (2018: \$49,000) for services relating to the audit and review of Hunter Valley Operations joint venture financial information.

**F Other Information (continued)**

**F3 Reconciliation of profit after income tax to net cash inflow from operating activities**

	<b>31 December 2019 \$M</b>	<b>31 December 2018 \$M</b>
Profit after income tax	<u>719</u>	<u>852</u>
<i>Non-cash flows in profit or loss:</i>		
Depreciation and amortisation of non-current assets	607	523
Release of provisions	(31)	(59)
Capitalised interest income from joint venture	(6)	(18)
Unwinding of discount on royalty receivable	(20)	(21)
Unwinding of discount on provisions	9	13
Remeasurement of financial assets	-	29
Net loss on disposal of property, plant and equipment	9	9
Impairment of financial assets	-	21
Fair value losses recycled from hedge reserve	190	160
Foreign exchange losses / (gains)	5	(9)
Unwind of non-substantial loan refinance	5	10
Gain on disposal of joint operation and subsidiaries	-	(78)
Lease interest expenses	7	3
(Gain) / loss on remeasurement of contingent royalty	(12)	33
Gain on remeasurement of royalty receivables	(32)	(4)
Unwind of discount on non-contingent royalty	2	4
Share of loss/(profit) of equity-accounted investees, net of tax	24	(56)
<i>Changes in assets and liabilities:</i>		
Decrease in deferred tax	44	262
Increase in inventories	(35)	(61)
Decrease in operating receivables	90	85
(Decrease) / increase in operating payables	(24)	44
(Increase) / decrease in prepayments	(3)	5
Net cash inflow from operating activities	<u>1,548</u>	<u>1,747</u>

## F Other Information (continued)

### F4 Historical information

The assets and liabilities for the last five years at 31 December are:

	2019 \$M	2018 \$M	2017 \$M	2016 \$M	2015 \$M
Revenue	4,460	4,850	2,601	1,238	1,319
Profit / (loss) before income tax	767	1,172	311	(312)	(354)
Income tax (expense)/benefit	(48)	(320)	(82)	85	63
<b>Profit / (loss) after tax</b>	<b>719</b>	<b>852</b>	<b>229</b>	<b>(227)</b>	<b>(291)</b>
Profit / (loss) is attributable to:					
Owners of Yancoal Australia Ltd	719	852	229	(227)	(291)
Non-controlling interests	-	-	-	-	-
<b>Assets and Liabilities</b>					
Current assets	1,773	1,922	1,689	738	2,125
Non-current assets	9,320	10,486	10,624	6,922	5,745
<b>Total assets</b>	<b>11,093</b>	<b>12,408</b>	<b>12,313</b>	<b>7,660</b>	<b>7,870</b>
Current liabilities	2,112	913	1,013	499	638
Non-current liabilities	2,818	5,657	6,274	5,809	5,543
<b>Total liabilities</b>	<b>4,930</b>	<b>6,570</b>	<b>7,287</b>	<b>6,308</b>	<b>6,181</b>
<b>Net assets</b>	<b>6,163</b>	<b>5,838</b>	<b>5,026</b>	<b>1,352</b>	<b>1,689</b>

### F5 Events occurring after the reporting period

No matter or circumstances have occurred subsequent to the end of the financial year which has significantly affected, or may significantly affect, the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods except for the following matters:

- On 28 February 2020, Yancoal declared a final dividend totalling \$280 million (21.2 cents per share), with a record date of 16 March 2020. The final dividend will be paid on 29 April 2020.

### F6 Other significant accounting policies

#### (a) Foreign currency transactions

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency, except for Yancoal SCN Limited which has the US dollar as its functional currency.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

## **F Other Information (continued)**

### **F6 Other significant accounting policies (continued)**

#### **(a) Foreign currency transactions (continued)**

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### **(b) Financial instruments**

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

##### *(i) Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

##### *Classification of financial assets*

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### *Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

## F Other Information (continued)

### F6 Other significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### (i) Financial assets (continued)

For financial instruments the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance

##### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor contingent consideration arising from a business combination as at FVTOCI on initial recognition, and
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other revenue' line item.

##### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

## F Other Information (continued)

### F6 Other significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### (i) Financial assets (continued)

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

##### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## F Other Information (continued)

### F6 Other significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### (i) Financial assets (continued)

###### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- d) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

###### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default (including consideration of enforceability and recoverability under any guarantees). The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date and any undrawn, but committed loans associated with the financial asset.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12 month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## F Other Information (continued)

### F6 Other significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### (i) Financial assets (continued)

###### *Impairment of trade receivables*

The Group has applied the simplified approach to measuring ECL to trade and other receivables using a life-time expected loss allowance. The Group has also used the practical expedient of a provisions matrix using fixed rates to approximate the ECL. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience and considered future information.

##### (ii) Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

###### *Financial liabilities*

The Group's financial liabilities including trade and other payables, non-contingent royalty payable, interest-bearing liabilities which are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

###### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

###### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

##### (iii) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities (fair value hedge); and (ii) hedges of highly probable forecast transactions (cash flow hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in Note D9. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

## F Other Information (continued)

### F6 Other significant accounting policies (continued)

#### (b) Financial instruments (continued)

##### *(iii) Accounting for derivative financial instruments and hedging activities (continued)*

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives or other financial instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in cash flow hedge reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

##### *Derivatives that do not qualify for hedge accounting and those not designated as hedging instruments*

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and those not designated as hedges are recognised immediately in the profit or loss.

##### *(iv) Derecognition*

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investment revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## F Other Information (continued)

### F7 New and amended standards adopted by the Group

The Group has applied AASB 16 *Leases* with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117 *Leases*. The details of accounting policies under AASB 117 are disclosed separately if they are different from those under AASB 16 and the impact of changes is also disclosed.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 January 2019.

#### ***Policy applicable before 1 January 2019***

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - (i) the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - (ii) the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - (iii) facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

#### ***Policy applicable from 1 January 2019***

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - (i) the Group has the right to operate the asset; or
  - (ii) the Group designed the asset in a way that predetermines how and for what purpose it will be used.

## F Other Information (continued)

### F7 New and amended standards adopted by the Group (continued)

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, where applicable, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

#### **As a lessee**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line or other appropriate method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the balance sheet.

#### **Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## F Other Information (continued)

### F7 New and amended standards adopted by the Group (continued)

#### *Under AASB 117*

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's balance sheet. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

#### *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the lease is a finance lease, if not, it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, it classifies the sub-lease as an operating lease.

The Group recognises lease payments received under operating leases as revenue on a straight-line basis over the lease term as part of 'other revenue'.

The accounting policies applicable to the Group as a lessor in the comparative period are the same as AASB 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset. For the leases that are now recognised as a finance lease due to this change the amounts due from lessees under the finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

#### *Impact on financial statements*

On transition to AASB 16, the Group recognised an additional \$50 million of right-of-use assets and \$69 million of lease liabilities and \$19 million of finance lease receivables.

When measuring lease liabilities, the Group discounted lease payments using the contract rates and its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7%.

**F Other Information (continued)**

**F7 New and amended standards adopted by the Group (continued)**

***Lessee impact:***

	1 January 2019 \$M
New lease liabilities recognised	69
Uplift for discount rates applied	11
	80
Recognition exemption for:	
- short-term leases	9
- non-capital leases	12
Reassessment of lease term	(13)
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	88

***Lessor impact:***

Sub-leases to joint ventures have been reassessed under AASB 16 and have been converted to finance leases. As the lease term and payments under the sub-lease reflect the lease term and payments under the head lease, this is a 'back to back' arrangement and is accounted for as a finance lease. The lease is calculated as the present value of the lease payments for the right to use the underlying asset during the lease term that are not yet received plus any residual value accruing to the lessor. The discount rate used is the present value of the lease payments is the rate implicit in the lease.

This has resulted in derecognition of \$19 million in leased plant and equipment and recognition of \$19 million of finance lease receivables as at 1 January 2019.

**Other amending accounting standards and interpretations**

Other relevant accounting amendments and interpretations effective for the current reporting period include:

- AASB 2017-7 *Amendments to Australian Accounting Standards - Long-term Interests in Associates and Joint Ventures*;
- AASB 2018-1 *Interpretation 23 Uncertainty over Income Tax Treatments*; and
- *Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle*.

The adoption of the amendments and interpretation have not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

## F Other Information (continued)

### F8 New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2018-6	<p><i>Amendments to Australian Accounting Standards –Definition of a Business</i></p> <p>The Standard amends the definition of a business in AASB 3 <i>Business Combinations</i>. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.</p> <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.</p>	1 January 2020
AASB 2018-7	<p><i>Amendments to Australian Accounting Standards –Definition of Material</i></p> <p>This Standard amends AASB 101 <i>Presentation of Financial Statements</i> and AAS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.</p> <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report</p>	
AASB 2019-1	<p><i>Conceptual Framework for Financial Reporting, and relevant amending standards</i></p> <p>The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> <li>▶ Chapter 1 –The objective of financial reporting</li> <li>▶ Chapter 2 –Qualitative characteristics of useful financial information</li> <li>▶ Chapter 3 – Financial statements and the reporting entity</li> </ul>	1 January 2020

**F Other Information (continued)**

**F8 New accounting standards and interpretations (continued)**

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	<ul style="list-style-type: none"> <li>▶ Chapter 4 –The elements of financial statements</li> <li>▶ Chapter 5 –Recognition and derecognition</li> <li>▶ Chapter 6 –Measurement</li> <li>▶ Chapter 7 –Presentation and disclosure</li> <li>▶ Chapter 8 –Concepts of capital and capital maintenance</li> </ul> <p>Amendments to References to the Conceptual Framework in AASB Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of AASB in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 10, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of these updates will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	
AASB 2014-10	<p><i>Amendments to Australian Accounting Standards –Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p> <p>The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 <i>Business Combinations</i>.. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 deferred the mandatory effective date (application date) of AASB 2014-10 so that the amendments were required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016. AASB 2017-5 further defers the effective date of the amendments made in AASB 2014-10 to periods beginning on or after 1 January 2022.</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of this amendment will have no impact on the recognition of amounts in the Group's financial statements, but there will be additional disclosures required.</p>	1 January 2022

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 94 to 194 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note E6 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note E6.

Note A(i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by individuals performing the function of the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



Gregory James Fletcher  
Director  
28 February 2020

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YANCOAL AUSTRALIA LTD

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Yancoal Australia Ltd ("the Company") and its subsidiaries ("the Group"), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion:

1. the financial statements of the Group are in accordance with the *Corporations Act 2001*, including:
  - a. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date; and
  - b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
2. the financial statements also comply with International Financial Reporting Standards ("IFRS") as disclosed in Note A(i).

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key Audit Matters ("KAMs") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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## Key Audit Matter

## How the matter was addressed during the audit

### Impairment of interest-bearing loan to Watagan Mining Company Pty Ltd (“Watagan”) (Note D1)

As at 31 December 2019 Yancoal was owed \$901 million by Watagan. This loan receivable must be assessed for impairment as required by AASB 9 *Financial Instruments*. As the Watagan underlying assets cash flows do not support the full recovery of this loan receivable, management and those charged with governance have assessed whether sufficient credit enhancement is in place to ensure the receivable is recoverable.

Management and those charged with governance have determined that whilst without significant credit enhancement, there would be a significant impairment, the loan receivable does not require impairment as Yankuang Group Co., Ltd (“Yankuang”), the ultimate parent of the Company, has provided a guarantee for the loan receivable. Additional confirmation and assurance was required from Yankuang confirming that it remains bound by the guarantee and it will honour its obligations under the guarantee.

Due to the size of the loan receivable and the nature of the guarantee provided the loan receivable is considered to be a key audit matter.

Our audit procedures included:

- Reviewing the loan receivable impairment assessment with consideration to AASB 9 Financial Instruments.
- Assessing the documentary evidence to support the guarantee and the intentions of the Company in executing the guarantee if necessary.
- Assessing Yankuang’s ability to fulfil the obligation and fulfil the assurance given to the Group.
- Obtaining expert assistance on the methodology and inputs of the loan impairment assessment.
- Assessing the adequacy of the Group’s disclosures in respect of the loan receivable.

### Accounting for an associate - Watagan (Note E2(b)(i))

As the Group does not control Watagan but has significant influence, Watagan is accounted for as an associate in accordance with AASB 128 *Investments in Associates and Joint Ventures*. The ongoing losses of Watagan are not recognised by the Group as it does not have contractual agreements or a constructive obligation to contribute to Watagan and the loan to the associate is planned to be settled. Disclosure of the summarised financial position and results of Watagan are included in the financial statements in note E2(b)(i).

As disclosed in note E2(b)(i), for the year ended 31 December 2019, Yancoal has determined the Watagan asset values requires a pre-tax impairment provision of \$973 million. This is due to updated information identified in the period by management and those charged with governance including as a result of certain technical reviews. Such updated information included:

1. On 24 January 2020, it was announced to Austar employees that the mine will suspend production and transition to care and maintenance operations after 31 March 2020;
2. Ashton facing geotechnical challenges in future mining activities and challenges noted with the land acquisition required for the South East Open Cut mine; and

Our audit procedures included:

- Reviewing and assessing the position papers prepared by management and valuation experts for the assessment of the carrying value of the underlying Watagan assets.
- Evaluating managements’ key valuation assumptions and estimates used in the impairment testing. This includes documenting the skills and experience of the experts preparing the valuation workings to consider whether reliance can be placed on their work.
- Performing sensitivity analysis on key inputs.
- Reviewing the Group’s disclosures included in the financial statements for Watagan’s impairment testing.
- Engaging our corporate finance specialists to review the impairment model and various inputs.
- Reviewing cash flow forecasts for the twelve months from the date of signing of the financial statements of Watagan, assessing the cash flows of the Group inclusive of those of

Key Audit Matter	How the matter was addressed during the audit
<p>3. Donaldson remaining in care and maintenance.</p> <p>The impairment assessment is complex and involves significant judgment. Watagan's financial position and performance are not currently consolidated by the Group. There remains the potential for Watagan to be reconsolidated by the Group in the future.</p> <p>Given the complexity of the current results of Watagan, assessment of its potential impact to the Group is considered to be a key audit matter.</p>	<p>Watagan and ensuring appropriate disclosures on going concern is made, if needed.</p>
<p><b>Watagan consolidation assessment</b> (Note E2(b)(i))</p> <p>The Group holds 100% of the nominal share capital of Watagan, however management and those charged with governance have assessed that the Group does not control Watagan as it is not able to direct the relevant activities of Watagan.</p> <p>The assessment under the accounting standards is continuous and requires a high degree of judgement. If Watagan is controlled by the Group there would need to be a significant change to the financial statements to reflect the consolidation of the assets and liabilities of Watagan.</p> <p>The issue is addressed annually and requires significant audit focus and is considered a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Considering the requirements of the accounting standard AASB 10 <i>Consolidated Financial Statements</i> to assess whether the Company controlled Watagan during the year ended 31 December 2019. In performing these procedures we have reviewed and challenged management's control assessment which includes but is not limited to an analysis of the relationship between the Group, Watagan and its bondholders.</li> <li>• Obtaining external accounting advice.</li> </ul>
<p><b>Impairment of non-current assets</b> (Note C3)</p> <p>A substantial portion of the value of the Group's non-current assets are tangible and intangible assets which are subject to an impairment assessment and revaluations in accordance with AASB 136 <i>Impairment of Assets</i> or AASB 9 <i>Financial Instruments</i>.</p> <p>These assets include property plant and equipment (note C1), mining tenements (note C2), intangible assets (note C5), royalty receivable (note C10) and long-term receivables from joint ventures (note C8(iii)).</p> <p>The assessments for each level of the classes of non-current assets requires different levels of audit effort.</p> <p>Asset valuation was a key audit matter due to the size of the balances, being 80% of the Group's non-current assets, and the level of judgement required to be applied to prepare the impairment assessment</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the determination of the Group's Cash-Generating Units.</li> <li>• Considering the assessment of impairment indicators which require an impairment test.</li> <li>• Evaluating the forecast commodity prices including comparison to available market information.</li> <li>• Comparing estimated operating costs and capital expenditure used in the impairment assessment with the latest approved mine plans and budgets.</li> <li>• Comparing the life of mine plan used in impairment with reserves and resources reported by internal geological experts. Evaluating the competency and objectivity of the experts by considering their professional qualifications and experience.</li> <li>• Working with our valuation specialists to compare key assumptions such as discount</li> </ul>

## Key Audit Matter

## How the matter was addressed during the audit

### Taxation

(Note B6)

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes and associated deferred taxation balances. The Group estimates its tax liabilities based on the Group's interpretation of taxation laws and regulations. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such a determination is made.

The Company must comply with the provisions of the Continuity of Ownership Test ("COT") to continue to carry forward deferred tax assets of A\$330 million that are associated with prior period losses.

Furthermore, the Group is involved in a significant value and quantity of related party transactions are subject to analysis under with the transfer pricing provisions of international taxation laws and regulations.

Significant judgement is required to calculate taxation balances, including assessing the recognition and measurement of taxation balances where there is a range of possible outcomes due to different interpretations of taxation law and regulations. Due to the size of the deferred tax balances on a gross basis we consider this to be a key audit matter.

rates and foreign exchange rates to market information.

- Performing sensitivity analysis on the key assumptions.
- Assessing the Group's impairment disclosures.

Our audit procedures included:

- Engaging the use of our tax experts to assist with:
- Assessing the tax calculations;
- Considering any uncertain taxation positions;
- Assessing transfer pricing arrangements; and
- Evaluating the COT assessment.
- Assessing the Group's taxation disclosures.

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's financial report for the year ended 31 December 2019, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process. In Note A(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with IFRS.

## Auditor's responsibilities for the Audit of the Financial Statements

Our responsibility is to express an opinion on the financial statements based on our audit. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the KAMs. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 35 of the directors' report for the year ended 31 December 2019. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion on the Remuneration Report

In our opinion, the Remuneration Report of Yancoal Australia Ltd, for the year ended 31 December 2019, complies with section 300A of the *Corporations Act 2001*.

## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**ShineWing Australia**  
Chartered Accountants



R Blayney Morgan  
Partner  
Sydney, 8 February 2020